MINISTRY OF FINANCE

Public Accounts of ONTARIO

2006–2007

ANNUAL REPORT
AND
CONSOLIDATED FINANCIAL
STATEMENTS

2008-06042/

MINISTRY OF FINANCE

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2006–2007

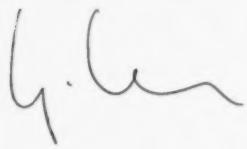
ANNUAL REPORT
AND
CONSOLIDATED FINANCIAL
STATEMENTS

To The Honourable
James K. Bartleman
Lieutenant Governor of Ontario

May It Please Your Honour:

The undersigned has the honour to present the Public Accounts of the Province of Ontario for the fiscal year ended March 31, 2007, in accordance with the requirements of the *Ministry of Treasury and Economics Act.*

Respectfully submitted,



The Honourable Greg Sorbara
Minister of Finance
Toronto, August 2007

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FOREWORD

I am pleased to present the 2006–2007 Ontario Public Accounts. These accounts confirm a $2.3 billion surplus for 2006–07, the second consecutive balanced budget.

When the government took office in October 2003, Ontario was facing deficits on many fronts. Our education and health care systems were struggling. Our infrastructure investments were not keeping pace. Ontario's most vulnerable lacked a fair chance to succeed.

At the same time, Ontario faced a $5.5 billion fiscal deficit, rooted in a mismatch of revenues and expenditures between 2000–01 and 2003–04. During that period, provincial program spending increased by 21 per cent, while taxation revenue actually declined by 0.7 per cent. This imbalance created the conditions for a structural deficit.

Our mandate was clear: restore Ontario's fiscal health; address the deficits in education and skills, health care and infrastructure; expand opportunity for all Ontarians; and grow a more vibrant economy.

Our first Budget included measures to address Ontario's structural deficit, while investing in our key priorities of health care and education. The 2005 Budget launched the most significant investment in higher education in a generation. The 2006 Budget invested $1.2 billion in public transit, roads and bridges through Move Ontario.

Throughout this period, we have steadily reduced Ontario's deficit through a more disciplined approach that included a prudent fiscal planning process, measures to control spending in non-priority areas, and key investments to strengthen the Ontario economy. The 2005–2006 Public Accounts showed a balanced budget, although the structural deficit was still not fully addressed and storm clouds loomed on Ontario's economic horizon.

Rising oil prices, the high Canadian dollar and an economic slowdown in the United States resulted in a period of more modest economic growth in Ontario in the third quarter of 2006. To help mitigate the impact, we introduced a number of targeted measures in the fall of 2006 to help job-threatened or laid-off workers, fast-track infrastructure projects, encourage interprovincial trade and boost tourism.

By the fourth quarter of 2006, private-sector forecasts anticipated Ontario real gross domestic product (GDP) growth would strengthen over the next three years. The Ontario Economic Accounts for the first quarter of 2007 confirm that Ontario has returned to more healthy levels of growth, with real GDP up 0.7 per cent.

The 2007 Budget continued to invest in education, health care and infrastructure, while launching initiatives to expand opportunities for children and families and to protect the environment. It also projected another balanced budget, with indications that we were on track to post five consecutive surpluses.

Over the course of its mandate, the government has taken a number of steps to enhance transparency and accountability. The *Fiscal Transparency and Accountability Act* (FTAA), passed by the Ontario legislature in 2004, requires the government to publish a report on Ontario's finances in advance of a general election and to have it reviewed by the Auditor General. The Province's first *Pre-Election Report on Ontario's Finances* was published on April 23, 2007 and, on June 18, 2007, the Auditor General published his review. Among other things, his review confirms that the government's expense and revenue estimates are reasonable and that the assumptions, on which the projections are based, are consistent with the plans of the government.

This Annual Report, which forms part of the Public Accounts of Ontario, confirms a balanced budget for 2006–07. In fact, we have exceeded our fiscal target by posting a surplus of $2.3 billion. The results in Ontario are similar to those in most other Canadian jurisdictions, including Saskatchewan, Nova Scotia, Alberta and British Columbia, each of which achieved surpluses in 2006–07 that went well beyond budgetary plan. While the federal government has yet to release its 2006–07 public accounts, indications are that those accounts will show surpluses beyond budgetary plan.

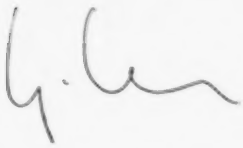
Ontario's results demonstrate that our economy is growing and that our approach to financial management, based as it is on discipline and prudence, has been successful. The "wisdom of the practice of building a healthy dose of prudence into the budget revenue projections" was noted in the Auditor General's review of our Pre-Election Report.

This Annual Report represents, in exhaustive detail, the results of one year in this government's mandate. It itemizes, with precision, the steps we have taken to:

- make our schools better places to learn
- strengthen the reach of our colleges and universities
- reduce health wait times and build new health centres
- address the harsh realities of poverty
- build and repair infrastructure around the province
- expand opportunity in Ontario's workplaces
- create a greener and cleaner province

…and much more.

Our plan is working. Ontario is growing again and has entered a new era of balanced budgets and sustainable surpluses. This strength provides an opportunity for us to become an even stronger province in the years ahead.



The Honourable Greg Sorbara
Minister of Finance

INTRODUCTION

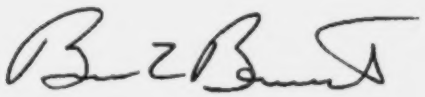
This Annual Report, which forms part of the Public Accounts of the Province of Ontario, outlines Ontario's financial position and the results of operations for the fiscal year ended March 31, 2007. This report is one of the major financial accountability documents of the Province, wrapping up the financial results of the past year. It represents the final outcome of the Budget for 2006–07 that was released in March 2006, and explains actual financial results for the year against those planned.

The Province has taken a number of steps to improve its financial reporting to enhance transparency and accountability. Part of that effort has been to release the Budget and this Annual Report earlier and to improve their presentation. Further underlining a commitment to providing timely and useful financial information, this year the Province released Ontario's first *Pre-Election Report on Ontario's Finances,* in line with the requirements of the *Fiscal Transparency and Accountability Act, 2004*. The first document of its kind in Canada, the Pre-Election Report was independently reviewed by the Province's Auditor General, who noted that "the report enhances the accountability and transparency of the government's fiscal-planning process."

The Financial Statement Discussion and Analysis provided in this Annual Report builds on the commitment to openness and transparency in financial information. It has been reorganized to make it easier to understand, and to highlight the financial management principles underlying improvements in the Province's financial health over the past several years.

Producing the Public Accounts of Ontario requires the teamwork and cooperation of a large number of staff in ministries, agencies and organizations in the broader public sector. In addition, the Office of the Auditor General plays a critical role in reviewing and reporting on the Province's financial statements. I would like to thank everyone who was involved in preparing the 2006–07 Public Accounts for their very important contributions.

Comments on the Public Accounts are welcome. Please share your thoughts by e-mail at annualreport@ontario.ca, or by writing to the Office of the Provincial Controller, Re: Annual Report, Ontario Ministry of Finance, First Floor, Frost Building South, 7 Queen's Park Crescent, Toronto ON M7A 1Y7.



Bruce L. Bennett, CA
Assistant Deputy Minister and Provincial Controller
Ontario Ministry of Finance

GUIDE TO THE PUBLIC ACCOUNTS

The Public Accounts of the Province of Ontario comprise this Annual Report and three supporting volumes.

Annual Report

The Annual Report includes the Consolidated Financial Statements of the Province of Ontario and a Financial Statement Discussion and Analysis that explains the results in more detail.

The Consolidated Financial Statements are made up of several documents and schedules:

- The Auditor General's Report on the Consolidated Financial Statements expresses the opinion of the Auditor General that the statements fairly report the activities of the government in accordance with Canadian generally accepted accounting principles.
- The Consolidated Statement of Operations reports the annual deficit/surplus from operations in the period. It shows government revenues, the cost of providing services and other expenses, and the difference between them.
- The Consolidated Statement of Financial Position shows the financial resources of the Province against its obligations. The resulting figure is called net debt. The Province's accumulated deficit is its net debt less the value of its tangible capital assets and the net assets of hospitals, school boards and colleges.
- The Consolidated Statement of Change in Net Debt shows the combined impact on net debt of the Province's annual deficit/surplus and its investments during the year in tangible capital assets and the net assets of hospitals, school boards and colleges.
- The Consolidated Statement of Cash Flow shows the sources and uses of cash over the period. Government's operating activities, including the annual surplus or deficit, and changes in its financial investments, may use or provide cash over the fiscal year. Increases in debt are a source of cash, while investments in tangible capital assets and the net assets of hospitals, school boards and colleges are uses of cash.
- Notes and schedules provide further information and detail on the items in the various statements and form an integral part of the Consolidated Financial Statements. The notes also include a summary of the significant accounting policies that guide the financial statement reporting.

Supporting Volumes

- Volume 1 contains ministry statements and detailed schedules of debt and other items. The ministry statements reflect the financial activities of the government's ministries on the accrual basis of accounting, providing a comparison of appropriations with actual spending. Ministry expenses include all expenses that are subject to appropriation approved by the Legislative Assembly, but exclude adjustments arising from consolidation of government organizations whose expenses are not appropriated.
- Volume 2 contains the financial statements of significant provincial corporations, boards and commissions that are part of the government's reporting entity, and other miscellaneous financial statements.
- Volume 3 contains detailed schedules of ministry payments.

STATEMENT OF RESPONSIBILITY

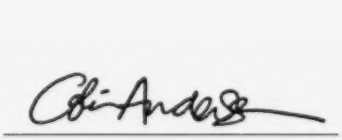
The Consolidated Financial Statements are prepared by the Government of Ontario in compliance with legislation, and in accordance with accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the recommendations of the Accounting Standards Board (AcSB) of the CICA.

The Financial Statement Discussion and Analysis section of this Annual Report is also prepared by the Government of Ontario in compliance with legislation and in accordance with the financial reporting principles and practices recommended for governments by PSAB.

The government accepts responsibility for the objectivity and integrity of these Consolidated Financial Statements and the Financial Statement Discussion and Analysis.

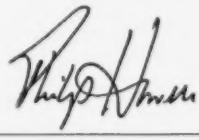
The government is also responsible for maintaining systems of financial management and internal control to provide reasonable assurance that transactions recorded in the Consolidated Financial Statements are within statutory authority, assets are properly safeguarded and reliable financial information is available for preparation of these Consolidated Financial Statements.

The Consolidated Financial Statements have been audited by the Auditor General of Ontario and his report appears on page 31 of this document.

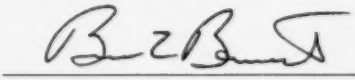


Colin Andersen
Deputy Minister

August 7, 2007



Philip Howell
Associate Deputy Minister
August 7, 2007



Bruce L. Bennett, CA
Assistant Deputy Minister
and Provincial Controller
August 7, 2007

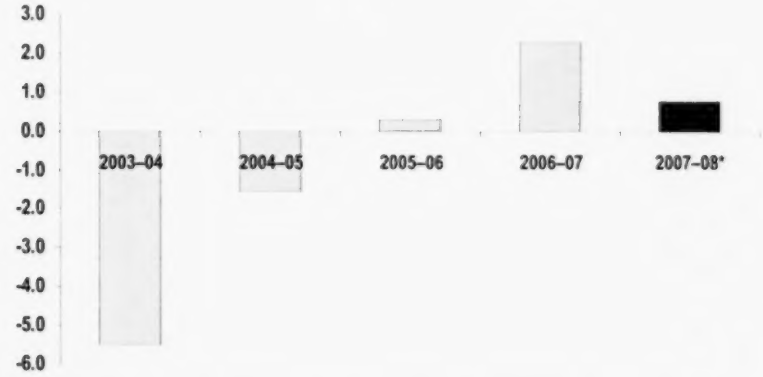
FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

HIGHLIGHTS

- The Province's financial results continued to improve, moving to a $2.3 billion surplus position in the year ended March 31, 2007, from a $5.5 billion deficit in 2003–04.

Return to Surpluses

($ Billions)



* Projected surplus for 2007–08, assuming that a reserve of $750 million to protect against adverse unforeseen events will not be needed. If the reserve is needed, the budget is still projected to be in balance.

- The 2007 Budget concluded that Ontario could achieve five consecutive surpluses from 2005–06 through to 2009–10, depending on 2007–08 results. This Annual Report confirms a second consecutive surplus, for the 2006–07 fiscal year. The surplus for 2006–07 includes a number of one-time revenue gains that are not expected to carry forward into future years. Nevertheless, the Province's updated fiscal plan for 2007–08 puts Ontario clearly on track to achieve five consecutive surpluses.
- Improved financial management and strong fiscal performance have allowed the Province to eliminate the annual deficit earlier than its original goal, while at the same time improving services and making major investments in critical infrastructure.
- Total spending on the core areas of education, health care and children's and social services grew by $11.7 billion between 2003–04 and 2006–07. At the same time, the Province has made major investments in new buildings and facilities for hospitals, schools, colleges and universities, transportation and public transit systems, and other key assets.
- The Province's investments in core services and infrastructure have brought real and measurable change to the lives of Ontario's people: children and young people are doing

better in school, waiting times for key medical procedures are shorter, our health care system is more responsive and effective, and stewardship over Ontario's air and water is stronger.

2006–07 Actual Results Against Budget Plan ($ Billions) **Table 1**

	2006–07 Budget	2006–07 Actual	Change
Revenues	85.7	90.4	4.7
Expenses			
Programs	77.7	79.3	1.6
Interest on Debt	9.4	8.8	(0.6)
Total Expenses	87.1	88.1	1.0
Annual Surplus (Deficit)[1]	(1.4)	2.3	3.6

[1] A reserve of $1.0 billion included in the Budget plan is not shown in the above results, as it was not needed during the year.
Note: Budget numbers and related variances may not add due to rounding.

- Revenues exceeded the level expected in the 2006–07 fiscal plan presented in the March 2006 Budget by $4.7 billion. The change reflected an unanticipated and time-limited increase in federal transfer payments of $0.5 billion and a one-time gain of $0.6 billion related to the initial public offering of Teranet. It also included $1.4 billion in one-time adjustments to tax revenues for earlier years. Taxation revenues relating to 2006–07, income from government business enterprises and other revenue sources were also stronger than projected.
- The government used about one-third of the additional revenues to increase overall spending on government priorities by $1.6 billion. The remaining two-thirds of the revenue increase went to further reducing the Province's accumulated deficit.
- The annual surpluses of $2.3 billion this year and $0.3 billion for 2005–06 have reduced the accumulated deficit by a total of $2.6 billion.
- Much of the information underlying these positive final results was discussed earlier this year in the 2007 Budget, which provided interim results for 2006–07. The change from the interim estimate of a $0.3 billion surplus reflects new information about revenues, as well as final expenses that were lower than estimated in the interim results.
- The results of the past four years and the improved outlook for future years underscore the wisdom of the government's careful and disciplined approach to financial management. This approach will continue to protect Ontario's fiscal health — and benefit its citizens — going forward.

Analysis of 2006–07 Results

The analysis that follows compares the actual 2006–07 results to the plan presented in the Budget of March 23, 2006.

2006–07 Operating Results against Budget Plan ($ Billions) **Table 2**

	2006–07 Budget	2006–07 Actual	Change
Revenues			
Taxation	61.3	64.3	3.0
Federal transfers	13.6	14.0	0.5
Income from government business enterprises	3.9	4.2	0.3
Other non-tax revenue	7.0	7.9	0.9
Total Revenues	85.7	90.4	4.7
Expenses			
Health	35.5	35.7	0.2
Education, postsecondary and training	17.2	17.4	0.2
Children's and social services	10.2	10.4	0.2
Other programs	14.6	15.8	1.1
Total Program Expenses	77.7	79.3	1.6
Interest on debt	9.4	8.8	(0.6)
Total Expenses	87.1	88.1	1.0
Surplus (Deficit)	(1.4)	2.3	3.6

Note: Budget numbers and related variances may not add due to rounding.

Revenues increased by $4.7 billion over the amount in the Budget plan of March 2006. The Province used about one-third of the additional revenues to increase overall program expenses by $1.6 billion to support its priorities. The remaining two-thirds of the additional revenues went to further reducing the accumulated deficit, as did savings of $0.6 billion in expense for interest on debt. The Province achieved a $2.3 billion surplus for the year, instead of the $1.4 billion deficit originally forecast in March 2006.

2006–07 Revenues

The increase in revenues above plan was due mainly to stronger taxation revenues relating to 2006–07, adjustments in tax revenues relating to earlier years, a one-time gain on the initial public offering of Teranet, an unanticipated and time-limited increase in federal transfer payments, and higher income from government business enterprises.

Taxation revenues, the largest component of revenue, were $3.0 billion higher than expected in the 2006 Budget plan, mainly because of higher Personal Income Tax and Corporations Tax revenues.

Of this, $1.4 billion reflected adjustments relating to earlier years to both Personal Income Tax and Corporations Tax revenues, which does not carry forward into future years.

- Personal Income Tax revenue was $2.0 billion above plan. During 2006–07, the processing of tax returns for 2005 and other earlier years increased revenues related to those years by $1.2 billion. The increases were recorded as higher revenue in 2006–07, as was an upward adjustment of $0.1 billion related to a re-estimate by the federal government of Ontario's tax entitlement for 2003. The rest of the increase reflects stronger revenues for 2006–07 than forecast in the 2006 Budget plan.
- Corporations Tax revenue was $1.0 billion above the 2006 Budget plan. Final 2006 tax remittances for most Ontario corporations, which were received towards the very end of the 2006–07 fiscal year, were particularly strong. As well, Corporations Tax revenue for 2006–07 reflected an adjustment of $0.1 billion resulting from an underestimation of 2005–06 figures.
- Tobacco taxes were $249 million lower than projected. This decrease was offset by higher revenues from other taxes, including retail sales tax, employer health tax, land transfer tax and mining tax.

Transfer payments from the federal government were $454 million higher than anticipated, largely because of time-limited payments announced in the 2006 federal budget after Ontario's 2006 Budget was presented. The funds were contingent on the federal government's final results for 2005–06 as reported in its public accounts in the fall of 2006. This arrangement created considerable uncertainty well into Ontario's fiscal year, making effective allocation of the funds more difficult.

Income from government business enterprises was $276 million higher than expected in the 2006 Budget plan. The most significant gain was a $202 million increase from plan in the income of Ontario Lottery and Gaming, mainly reflecting stronger performance of commercial and charity casinos, lotteries and racetracks.

Other non-tax revenue, which consists mainly of fees, licences and various sales and rentals, was $901 million higher than expected. A one-time gain of $573 million resulted from the initial public offering in 2006 of Teranet, the company that operates the electronic land registration system in Ontario. Although the Province sold its 50 per cent interest in Teranet in 2003, it retained the right to share in the value of any future sale.

2006–07 Expenses

The additional revenues provided the government the opportunity to invest additional funds in high-priority program areas.

- Investments in **public transit and transportation** included an increase of $769 million from plan to reflect the Province's commitment to cleaner air and reduced greenhouse gas emissions. The additional spending included $352 million to municipalities for public

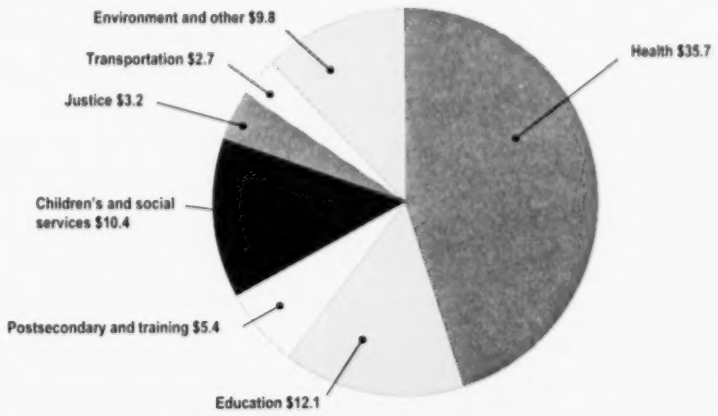
transit infrastructure. A further $346 million went to the City of Toronto for the Toronto Transit Commission and the replacement and refurbishment of its vehicles.

- In the **health care sector**, expenses rose by $182 million over the $35.5 billion planned in the 2006 Budget. Investments were made to reduce wait times, cover higher costs for drug programs, and implement the Emergency Department Action Plan. As well, hospitals received more funds to improve efficiency and address operational pressures. In some areas, actual expenses were lower than planned. For example, the hospital sector ended the fiscal year with a budgetary surplus.
- Additional spending on **agriculture and rural communities** provided farmers with a one-time increase of $96 million in assistance to match the federal Canadian Agricultural Income Stabilization Inventory Transition Initiative. Rural municipalities got an additional $140 million to meet pressing infrastructure needs such as improving water and wastewater systems, roads and bridges.
- **Municipalities** were provided with an increase of $127 million in capital grants for affordable housing initiatives and $10 million for brownfield initiatives.
- In the **children's and social services** sector, an additional $153 million was provided to help deliver social assistance, child protection and developmental services and to allow service agencies to make needed capital investments.
- Provincial **universities** received additional one-time funding of $210 million.

The composition of final program expenses in 2006–07 reflected the Budget plan and these new initiatives:

2006–07 Program Expenses

($ Billions)



Note: Total program expenses in 2006–07 were $79.3 billion. Including expense for interest on debt of $8.8 billion, total expenses were $88.1 billion. Sector totals have been rounded to the nearest $0.1 billion.

Support for the core areas of health care, education, postsecondary education and training, and children's and social services all grew in 2006–07 over the previous year. Government spending in these and other areas is focused on continuing to achieve measurable improvement for people in Ontario.

Families and their children are benefiting from real improvements:

- Almost all children in junior kindergarten to Grade 3 are now in classes of 23 or fewer students. In 2006–07, 65 per cent were in classes of 20 or fewer students — more than double the 31 per cent share in 2003–04.
- Students in Grades 3 and 6 are doing better at reading, writing and math. The most recent results, for 2005–06, show an increase in the share of students performing at or above the standard on the provincial reading and math test, from 54 per cent in 2002–03 to 64 per cent in 2005–06.
- The high school graduation rate increased to 73 per cent in 2005–06 from 68 per cent in 2003–04. This means that 12,000 more students are graduating.
- Full-time enrolment in postsecondary education has increased by about 86,000 students since 2002–03.
- Families have improved access to quality child care through the creation of almost 22,000 new licensed child care spaces across the province over the past two years, including almost 15,000 new spaces in 2006–07.
- The number of children with autism spectrum disorder receiving intensive behavioural intervention has more than doubled since 2003, with over 1,100 children receiving these services in 2006–07.

The **health of Ontarians** is benefiting from real improvements:

- Wait times have been shortened for five key health services — MRI/CT scans, hip and knee joint replacements, selected cancer surgeries, selected cardiac procedures and cataract surgeries. Regularly updated information on reduced wait times is available at www.ontariowaittimes.com. The 2007 Budget added pediatric surgeries to Ontario's wait time strategy.
- The formation of 150 family health teams, in which family doctors, nurses, nurse practitioners and other health professionals work in partnership, is improving access to primary health care and increasing its effectiveness. The number of Ontarians with regular access to a family doctor has increased by 500,000 since 2003.
- The government is increasing access to health care professionals by moving forward on: hiring 8,000 new nurses since 2003; increasing first-year medical school spaces by 23 per cent; and expanding family medicine training positions by 70 per cent.

- New accountability agreements with hospitals have set funding expectations and clear performance targets, including a commitment to the principle of balanced budgets, to help ensure a sustainable hospital system for Ontario.
- The government is moving forward with more than 100 health care projects to modernize, expand and upgrade health care facilities across the province.
- Since 2004, 1.8 million children and young people have benefited, free of charge, from three new vaccines against meningitis, invasive pneumococcal disease and chickenpox.
- Between 2003–04 and 2005–06, the most recent year for which data are available, the share of Ontarians aged 15 and older who reported smoking fell from 20 per cent to 16 per cent.

Ontario's **environment** is benefiting from real improvements:

- Between 2003 and 2006, the reduction in electricity generation from coal plants resulted in a 29 per cent decrease in carbon dioxide emissions, the equivalent of taking two million cars off the road for a year. Over the same period, coal plants' emissions of sulphur dioxide fell by 44 per cent and nitrogen oxides by 46 per cent.
- In 2003, there were only 10 windmills in the province. More than 700 are now in place or contracted for, and one of the largest solar farms in the world is being developed in Ontario.
- Through the *Clean Water Act,* Ontario enjoys some of the best-protected drinking water in North America.
- Ontario is permanently protecting 1.8 million acres of green space on the outskirts of cities through its 2005 greenbelt legislation.
- Since becoming law in 2005, the *Places to Grow Act* has helped ensure sustainable growth in Ontario. The first growth plan, for the Greater Golden Horseshoe area, was released in June 2006 after extensive consultation with stakeholders and communities and is now being put into action.

The Province has achieved these results while meeting another of its commitments: modernizing government and making it more efficient. It has reduced ongoing expenses by $806 million a year through program reviews, exceeding its target of $750 million.

2006–07 Infrastructure Investments and Borrowing Program

Under the ReNew Ontario initiative, Ontario has committed to invest more than $30 billion in infrastructure with its partners by 2010 to improve quality of life and build on the province's economic advantages. The focus is on such priority areas as health and education, as well as investments to strengthen Ontario's communities and economy.

In 2006–07, as part of ReNew Ontario, the Province provided $6.4 billion for infrastructure — highways, hospitals, schools, college and university buildings and equipment, and water and wastewater systems — across Ontario. This included $2.6 billion in expenditure on tangible capital

assets owned by the Province and by hospitals and colleges. The Province also provides capital-related funds to school boards, which are consolidated in its financial statements.

In addition, the Province's expenses included other infrastructure expenditures and funds for capital purposes provided to universities, municipalities, social service agencies and other organizations that deliver important public services. These included investments in water and wastewater systems and other infrastructure to protect the environment. These investments totalled $3.9 billion and were reflected in the Province's operating statement. The increase in these expenses of $1.1 billion over the Budget plan reflected the government's decision to provide additional funds for capital projects to its transfer partners because of strong in-year financial results.

Investments in Infrastructure[1] ($ Billions) **Table 3**

	2006–07 Budget	2006–07 Actual	Change
Transportation	2.4	3.1	0.7
Health	0.5	0.6	–
Education, postsecondary and training	1.2	1.1	–
Other[2]	1.2	1.6	0.4
Totals	5.3	6.4	1.1

[1] These totals consist of the Province's own investments in capital assets; transfers for capital purposes to municipalities and universities; expenditures for servicing capital-related debt of schools; expenditures for the repair and rehabilitation of schools; and other infrastructure expenditures. Transfers for capital-related purposes and other infrastructure expenditures are recorded as expenses in the Province's Statement of Operations.

[2] "Other" includes expenditures for water and wastewater systems and environmental capital projects; municipal capital projects; courthouses and other capital spending in the justice sector; cultural institutions; and other public infrastructure.

Note: Budget numbers and related variances may not add due to rounding.

Like a family buying a house, the Province borrows to invest in major assets that will provide decades of service to Ontarians. The *Fiscal Transparency and Accountability Act* defines provincial debt as the Province's total liabilities less its total assets, which include highways, bridges, government buildings and the net assets of hospitals, colleges and school boards. This approach, in which the impact of borrowings to invest in capital is offset by the value of the assets, is similar to the way families and individuals net the amount of their mortgage against the value of their home to calculate net worth.

In accounting terms and on the Province's financial statements, the difference between total liabilities and total assets is referred to as the "accumulated deficit" rather than provincial debt. Accumulated deficit, or provincial debt, decreased by $2.4 billion during 2006–07, from $109.2 billion as at March 31, 2006 to $106.8 billion as at March 31, 2007. This improvement was made up of the surplus of $2.3 billion plus an adjustment of $0.1 billion that is discussed in Note 4 to the financial statements.

Rating agencies and investors look at the Province's net debt, which equals its total liabilities less its financial assets, in assessing creditworthiness. Net debt decreased by $0.8 billion to

$141.1 billion during 2006–07. This improvement reflected the Province's $2.3 billion surplus, partially offset by increased net investment of $1.2 billion in its own tangible capital assets and an increase of $0.3 billion in the net assets of hospitals, school boards and colleges.

The Province's "total debt," on the other hand, simply records all borrowings. In 2006–07, the bulk of the funds for the Province's investment in capital assets were provided by a net increase of $2.0 billion in total debt, which stood at $157.3 billion as at March 31, 2007.

Government Management of Finances

A major responsibility of governments is to manage public finances in a responsible way. Good financial management starts with a sound budget. The budget sets out a fiscal plan that reflects government priorities in the allocation of public finances.

Financial management must also address changing circumstances as the fiscal year unfolds. If revenues are less than expected, the government's flexibility to respond is limited. This problem can be compounded because some costs tend to increase as slower economic activity causes revenues to fall. It is therefore good public policy to ensure that fiscal targets are still achievable even if outcomes are worse than expected. This starts by using cautious forecasts for revenues and building other elements of prudence into the budget plan.

Prudence in the 2006–07 Plan

The 2006 Budget followed the government's practice of outlining the major risks to the plan and their potential impact, with detailed information appearing on pages 85 through 89 of the 2006 Budget papers.

To help protect the plan from the unexpected negative impacts that might result from these or other risks, the Budget plan for 2006–07 included these prudent elements:

- Revenue projections were based on a projection of real GDP growth of 2.3 per cent in 2006, as opposed to the private-sector average projection of 2.6 per cent.
- Contingency funds for both operating and capital that together totalled about 1.3 per cent of total expected expense provided protection against higher spending due to unforeseen events.
- The forecast for interest on debt expense was deliberately cautious (Note 3 to the Consolidated Financial Statements discusses the management of interest-rate risk and other risks relating to the Province's borrowing program).
- A reserve, separate from the contingency funds, of $1.0 billion was included to protect against unforeseen adverse events.

Ministries tend to spend below budget, since program spending above plan requires approval. To reflect this, the Budget includes a global amount each year for spending below plan.

The amount of such year-end savings in the 2006 Budget plan was projected at $700 million, or about 0.8 per cent of total expected spending.

Pre-Election Report

In 2007, for the first time, the Budget was followed by the *Pre-Election Report on Ontario's Finances*, as required by the *Fiscal Transparency and Accountability Act* for years in which a general election is scheduled. As also required by the act, the Auditor General reviewed the report, which outlined the approach to planning used by Ontario for several years.

The Auditor General observed that in addition to being required by the act, prudent financial planning in Ontario reflected the recommendations of an independent panel in 1995 and "has been the norm over the last decade — in nine of the last 10 years, the government exceeded its original fiscal targets and therefore had more funds available at year-end than what was expected."

The Auditor General's review of the Pre-Election Report concluded that the revenue and spending estimates for the period it covered and the assumptions underlying them were reasonable. Much of the discussion of revenue forecasting focused on taxation, which is the largest component of revenues. An assessment by an independent expert of the models and methods used in forecasting revenues from four major taxes concluded that these were consistent with what is considered to be best practice among revenue forecasters.

In-Year Financial Management

During 2006–07, the Ontario Government managed both upside and downside risks to the fiscal plan. After the first quarter, it revised its deficit projection from the $1.4 billion in the Budget to $0.9 billion, if the reserve were not needed, to reflect new information.

In response to concerns about the potential impact of slower economic growth, the government announced a stimulus package in the Fall Economic Outlook and Fiscal Review, released in October 2006. The measures focused on four key areas: providing services and programs to help job-threatened or laid-off workers; fast-tracking infrastructure projects to generate immediate economic activity and job creation; boosting interprovincial trade; and launching a new campaign to encourage Ontarians to vacation in Ontario. Some of the funds for these measures came from the net proceeds of the Teranet initial public offering.

Late in the fiscal year, tax processing data and other information suggested revenues would be higher than expected. The Province actively examined options for additional investments in strategic areas. Ministries had been asked to identify potential initiatives well before year-end to ensure time for suitable analysis. Details on all in-year approvals are included in Volume 1 of the Public Accounts. The Province continues to work with the Auditor General, its transfer partners and ministries to improve the openness and transparency of processes for deciding on year-end grants. An updated directive on transfer payment accountability, clarifying the approvals process for grants and providing controls in line with the size of the allocation, also supports that goal.

To ensure that future spending would be equal to or less than what a prudent forecast of ongoing revenues could support, the Province did not use one-time or time-limited revenues for initiatives with significant expense impacts that went beyond the availability of the funding source.

Interim Results

The Province provided interim estimates of results for 2006–07 in the 2007 Budget, tabled in March of this year.

At the time the 2007 Budget was finalized on March 16, the interim estimate of total revenues was $3.4 billion higher than in the Budget plan. The improvement over plan grew to $4.7 billion in final results, reflecting new information unavailable at the time of the 2007 Budget.

- Revenues from Corporations Tax were $369 million higher in the final results than the interim numbers. The variance between the interim estimates and final results arose from stronger tax receipts after the 2007 Budget was finalized. Personal Income Tax revenues were $370 million higher than in the interim estimate, reflecting new information from the processing of 2006 tax returns. Taxation receipts from all other sources increased by $81 million.
- As well, income from investment in government business enterprises was $208 million above the interim numbers. Revenue from other sources was $368 million higher, largely because of higher recoveries by ministries of previous years' expenses.
- These increases were somewhat offset by lower receipts of federal government transfers than estimated in interim results, leaving a net increase of $1.3 billion in total revenues against interim figures.

Similarly, the receipt of additional information after the 2007 Budget allowed greater accuracy in the estimate of spending for the year. Total spending by ministries and consolidated organizations such as hospitals, colleges and school boards was $705 million lower in final results than the interim estimate.

Comparison of 2006–07 Interim and Actual Results **Table 4**
($ Billions)

	2006–07 Interim	2006–07 Actual	Change
Revenues			
Personal Income Tax	23.3	23.7	0.4
Corporations Tax	10.5	10.8	0.4
Other taxation	29.7	29.8	0.1
Government of Canada	14.2	14.0	(0.1)
Income from government business enterprises	4.0	4.2	0.2
Other	7.5	7.9	0.4
Total Revenues	89.1	90.4	1.3
Expenses			
Programs	80.0	79.3	(0.7)
Interest on debt	8.8	8.8	–
Total Expenses	88.8	88.1	(0.7)
Annual Surplus[1]	0.3	2.3	2.0

[1] A reserve of $1.0 billion included in the Budget plan is not shown in the above results, as it was not needed during the year.
Note: Interim numbers and related variances may not add due to rounding.

Impact on Future Planning Periods

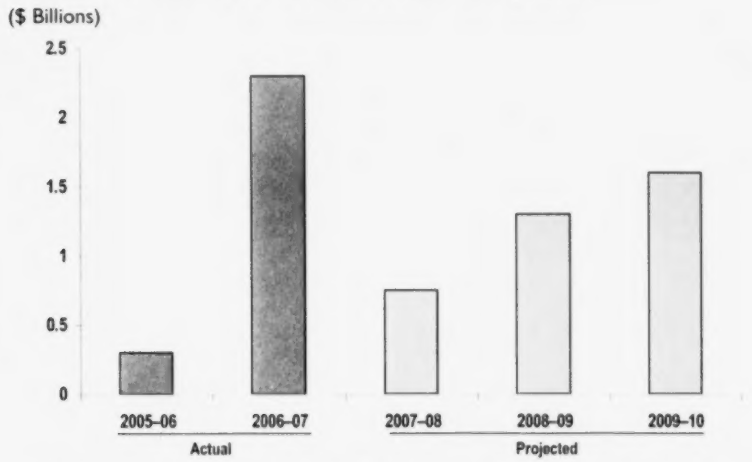
Ontario is not alone in achieving better results than expected in recent years. All provinces that have released their public accounts for 2006–07 have reported better revenue results than expected. In 2005–06, the public accounts of all provinces and the federal government showed they exceeded their budget plans.

Like other Canadian governments, the Province must assess the extent to which the outcomes of a single year might affect future years.

Developments since the 2007 Budget confirm that Ontario is clearly on track to achieve five consecutive surpluses. The Province is projecting a balanced budget in 2007–08, even if the reserve is needed. The updated medium-term plan takes into account the portion of higher revenue from 2006–07 that carries forward into 2007–08 and the remaining years covered by the plan, and reflects the fact that most of the increase is being invested in priority program areas.

In his review of the Pre-Election Report, the Auditor General noted that because of prudent planning practices, "it is quite possible that the estimated deficit of $400 million for the 2007/08 fiscal year could turn out to be a surplus and the estimated surpluses of $300 million for 2008/09 and $400 million for 2009/10 could approach $1 billion." The medium-term fiscal plan remains consistent with that view.

On Track for Five Consecutive Surpluses



Note: 2007–08 through 2009–10 are projected results. For consistency with 2005–06 and 2006–07 actual results, these projections assume that reserves of $750 million in 2007–08, $1.0 billion in 2008–09 and $1.3 billion in 2009–10 will not be required.

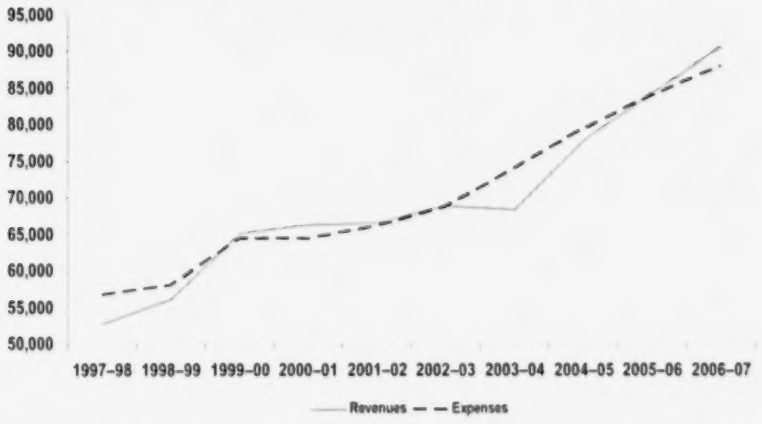
At the same time, the Auditor General's review identified a strengthening Canadian dollar as a risk to the economic outlook. The review concluded that the flexibility provided by prudent planning should more than offset any impact. It was noted that this "underlines the wisdom of the practice of building a healthy dose of prudence into the budget-revenue projections."

In line with this view, the Province remains prudent in its medium-term fiscal targets because of the greater fiscal and economic risks and uncertainties that exist further into the future. In addition to the appreciating Canadian dollar, these include higher oil prices and interest rates and a slowing U.S. economy. The Province will provide a financial update as of the end of the second quarter.

TEN-YEAR OVERVIEW OF FINANCIAL RESULTS

Ten-year Overview of Revenues and Expenses

($ Millions)



Note: The addition of revenues and expenses from the electricity sector increased government revenues by $3.3 billion and expenses by $3.9 billion in 1999–2000.

The government committed in 2003 to returning Ontario's fiscal plans to a sustainable path. The prudent approach of the past four years has achieved that goal, as the Province recorded surpluses in 2005–06 and 2006–07, eliminating the deficit ahead of schedule. An updated fiscal plan has projected a balanced budget for 2007–08, for a third consecutive surplus.

The commitment to financial sustainability was a response to a structural deficit that emerged as a result of cuts to taxation rates starting in the mid-1990s. Initially, taxation revenues increased because of continuing economic growth. As rate cuts continued and economic growth slowed, however, revenues flattened. Taxation revenues, the largest ongoing component of revenues, fell by $1.5 billion between 2000–01 and 2001–02.

Slower economic growth put pressure on expenses, which had been tightly constrained for much of the period. The mismatch between expense and revenue growth became most pronounced in 2003–04, when assumed revenues did not materialize and spending rose above plan, resulting in a deficit of $5.5 billion.

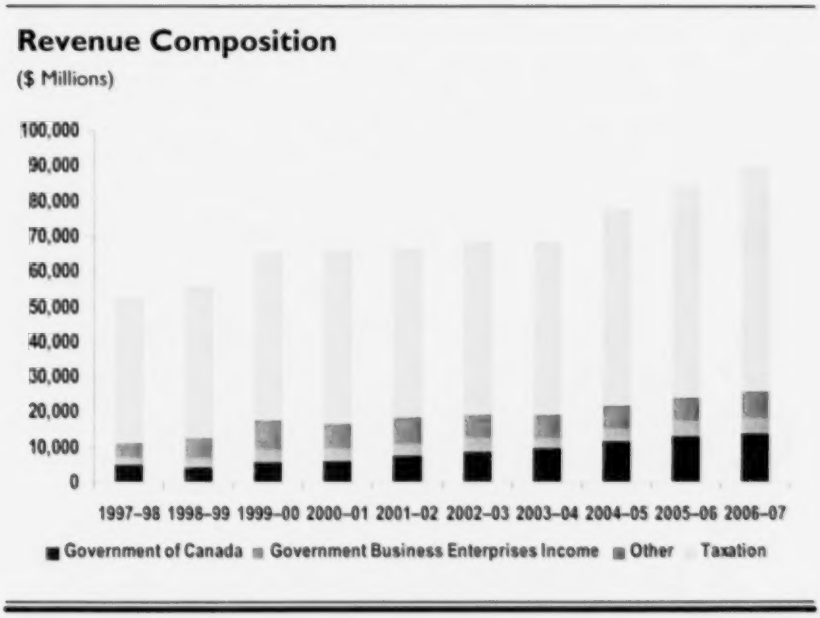
The government took steps to improve the management of financial risks and the ability of fiscal plans to absorb unexpected shocks. It introduced the *Fiscal Transparency and Accountability Act*, which required Budget plans to include a reserve against adverse unforeseen events. In line with the requirements of the act, the government put in place a fiscal recovery plan to eliminate the deficit. The plan was based on a disciplined approach to spending, making government more efficient,

focusing on results in key areas, and ensuring a sustainable base for taxation revenues. This analysis focuses in particular on the outcomes of that plan.

The outcome of careful financial management has been a steady improvement in results from operations, including the second straight surplus recorded in the fiscal year just ended. The updated fiscal recovery plan presented in the 2005 Budget projected that the Province's deficit would be eliminated by 2007–08 if the budgetary reserve was not needed and no later than 2008–09 even if it was. Better financial results helped the Province to eliminate the deficit in 2005–06, well ahead of schedule, while allowing spending to grow at an average annual rate of 6.1 per cent. This was well below the average annual growth rate in revenues of 9.7 per cent over the same period.

When revenues can accommodate the expected growth in expenses over time, a fiscal plan is sustainable. Many expenses for government arise from important public needs that must be met on an ongoing basis, such as health care, social programs and education. The government's actions over the past three years have strengthened financial management by relying on only those revenues known to be sustainable to fund major ongoing public needs. This approach will continue.

Revenues: 10-Year Overview



Revenues have grown in recent years largely because of economic growth, changes in taxation policies, increased transfer payments from the federal government, and changes in the electricity sector.

The largest element in the Province's revenues is taxation, currently accounting for a roughly 70 per cent share of the total. Tax revenue is generally sensitive to economic conditions, and the 5.3 per cent average annual increase over the past 10 years is closely in line with economic growth, as measured by nominal GDP, of about the same rate.

While taxation revenue responds to economic changes, its components respond in differing ways. Corporations Tax tends to be the most volatile. This component fell sharply in 2001–02 and remained stagnant for the next two years, reflecting difficult economic conditions and tax-rate cuts. It has rebounded over the past three-year period, growing at a faster rate than the economy.

Personal Income Tax, Retail Sales Tax and other taxation revenues were generally flat from 1999–2000 through to 2003–04. While not as volatile as Corporations Tax, growth in Personal Income Tax revenues has accelerated in the past three years, also contributing to the improved revenue picture. Personal Income Tax is progressive — that is, taxable income is subject to higher taxation rates as it rises — so revenues from this source grow faster than incomes overall. Personal Income Tax revenues have also been boosted by strong growth in capital gains income and improved tax administration practices by the Canada Revenue Agency. The growth in other taxation revenues after 2003–04 also reflects in part the introduction of a health care premium in 2004.

Transfer payments from the federal government have grown faster than overall revenues in the past several years. By 1998–99, after major cuts in previous years, federal transfer payments amounted to only 8.1 per cent of the Province's revenues.

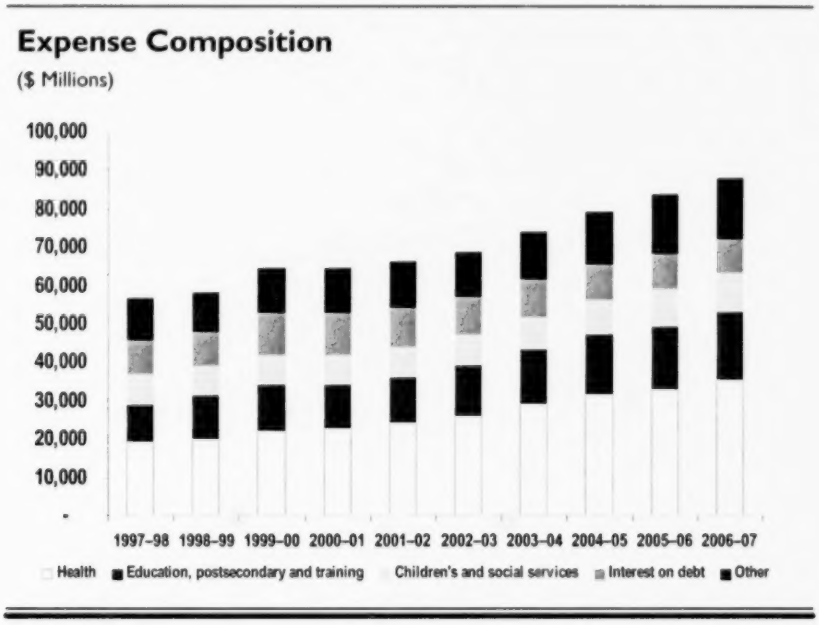
The federal government moved into a surplus position in 1997–98, and only after that point began restoring transfers to provinces and territories. It frequently provided these increases by using part of its year-end surplus to allocate additional transfers to the provinces. This generally happened after provincial fiscal plans were announced. As well, these additional transfers were of limited term and were often for specific purposes consistent with federal priorities.

It is much more difficult for the Province to rely on transfers of this type for implementing its fiscal plan and supporting its own priorities over the long term. So, while federal transfers reached 15.5 per cent of the Province's revenues by 2006–07, much of the increase was provided on a less certain basis than ongoing transfers, such as the Canada Health Transfer and Canada Social Transfer.

Income from government business enterprises, which include Ontario Power Generation Inc., Hydro One Inc., the Liquor Control Board of Ontario and Ontario Lottery and Gaming, has generally reflected economic conditions as well as factors specific to the sector in which each enterprise operates. For example, as of April 1, 2005, Ontario Power Generation began receiving regulated prices on the output from some of its assets, which has tended to improve its net income.

In total, revenue from all sources has grown at a faster rate than the economy over the past 10 years — 6.2 per cent, as opposed to 5.2 per cent. This rate, however, reflects several factors on which the Province cannot rely over the long term, such as transfers from the federal government reflecting its year-end surpluses, and, in 2006–07, one-time adjustments and gains like the Teranet transaction.

Expenses: 10-Year Overview



Increased revenues over the past three years have allowed the Province to focus on funding its priorities in the largest sectors — health, education, postsecondary education and training, and children's and social services. Together, these sectors represent almost three-quarters of the Province's expenses. It has also made major investments in public transit and other infrastructure needs through transfers to municipalities and other public organizations.

The largest expense area is health care, which comprises the expenses of hospitals, payments to physicians and other practitioners, drugs and other health-related programs. Spending on health care has grown fairly consistently over the past 10 years. It reached $35.7 billion in 2006–07, or about 45.0 per cent of program expenses.

Access to many health care programs is provided through a government statute or regulation to anyone who meets eligibility criteria. For example, all Ontario residents over the age of 65 are eligible for drug benefits. Programs must accommodate the public's need for such services, which has contributed to the continuing growth of the sector.

Since 2003–04, the government has addressed the needs driven by the spending constraint of previous years and has invested in key priorities. In particular, it budgeted for growth in expenses for schools, postsecondary education and the needs of families. Because results have been better than planned over that period, the extra funds have been used to increase those commitments and make strategic investments in other priorities.

Investing in Ontario's Infrastructure and Reducing Provincial Debt

One of the Province's most important activities is investing in infrastructure that is critical to economic growth and quality of life: public transit and other transportation systems, hospitals, colleges, schools and universities. The ReNew Ontario program, launched in 2005, is on track to meet its five-year investment goal of $30 billion.

Over the past two years, the Province has invested more than $12 billion, directly and through transfers to its partners in the broader public sector, to address major gaps in infrastructure across Ontario.

Investments in Ontario's electricity infrastructure are essential to support and enhance the province's economic competitiveness and high quality of life. Since 2003, about 3,900 megawatts of new electricity generation, conservation and demand management have come online. In addition, about 7,200 megawatts of new electricity generation projects are underway. New generation sources include 18 electricity contracts with the Province's Ontario Power Authority for renewable energy projects to provide a total of 1,300 megawatts of new supply, as well as 98 contracts for more than 500 megawatts under the Renewable Energy Standard Offer Program.

These generation projects also include investments by the Province's electricity generation corporation, Ontario Power Generation Inc. In addition, the Province's electricity transmission and distribution corporation, Hydro One Inc., is investing to maintain and improve its wires infrastructure. In total, Ontario Power Generation and Hydro One invested more than $5.0 billion to maintain and expand their capital assets from 2003–04 to 2006–07.

As noted, the Province borrows to invest in capital assets, with the value of the assets providing an offset to the borrowing when looking at provincial debt (or accumulated deficit, as it is known on the financial statements). Provincial debt changes from year to year, with annual surpluses from government operations having the effect of decreasing it, while annual deficits increase it.

The accumulated deficit or provincial debt currently stands at its lowest point in the past 10 years. At the end of the 1997–98 fiscal year, it was $112.7 billion. It increased the following year because of the Province's operating deficit. The accumulated deficit jumped sharply in 1999–2000, the year in which the Province consolidated about $20 billion in stranded debt from the electricity sector.

In 2002–03, the Province adopted the recommendations of the Public Sector Accounting Board (PSAB), the Canadian authority on government accounting, related to accounting for its tangible capital assets in the Public Accounts. This reduced the accumulated deficit by almost $14 billion, as the value of the Province's infrastructure was recognized in its books.

The accumulated deficit fell by a significant amount again in 2005–06, when the Province followed guidance from PSAB to consolidate Ontario's hospitals, school boards and colleges in its accounts. The decrease in accumulated deficit was $16.6 billion, reflecting past investments in these sectors.

These major changes were in addition to the normal year-by-year impact on the accumulated deficit of annual deficits and surpluses. Between 1997–98 and 2003–04, the cumulative impact of deficits less surpluses was an increase in the accumulated deficit of $8.4 billion. The accumulated deficit rose by $1.5 billion in 2004–05. It has fallen, however, in the past two fiscal years as a result of surpluses of $298 million in 2005–06 and $2.3 billion in 2006–07, and stood at $106.8 billion on March 31, 2007.

The ratio of provincial debt to GDP (or accumulated deficit to GDP in accounting terms) is a key measure of future demands on the economy to pay for past government decisions. The ratio is now 19.1 per cent, down considerably from 31.4 per cent 10 years ago. This decline is due in part to the accounting changes discussed above, and reflects that the rate of growth in the accumulated deficit has been slower, on average, than the growth in the economy. The decline has been especially strong over the past three years, in part because of the two consecutive surpluses.

The Value of a Responsible Approach

The strong results of the past several years and the improved outlook for the future illustrate the value of responsible financial management. Prudent planning often provides better-than-expected results that give government more fiscal flexibility, which allows the government to make additional investments in important priorities, including programs and the reduction of accumulated deficits.

Responsible financial management over the past four years based on prudent and disciplined planning has turned Ontario's fiscal situation around. The outlook for five consecutive budgetary surpluses will reduce future demands on Ontario's resources. But the results go far beyond that benefit. They also include better health care, a stronger education system, more support for families, and investments in infrastructure to help Ontario build on its economic advantages.

CONSOLIDATED FINANCIAL STATEMENTS

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To the Legislative Assembly of the
Province of Ontario

I have audited the consolidated statement of financial position of the Province of Ontario as at March 31, 2007 and the consolidated statements of operations, change in net debt, and cash flow for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2007 and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Toronto, Ontario
July 23, 2007

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Province of Ontario
Consolidated Statement of Operations

($ Millions)	2006–07 Budget[1]	2006–07 Actual	2005–06 Actual
Revenues *(Schedule 1)*			
Personal Income Tax	21,671	**23,655**	21,041
Retail Sales Tax	16,165	**16,228**	15,554
Corporations Tax	9,845	**10,845**	9,984
Employer Health Tax	4,314	**4,371**	4,197
Gasoline and Fuel Taxes	3,045	**3,033**	3,010
Ontario Health Premium	2,551	**2,589**	2,350
Other Taxes	3,683	**3,589**	3,781
Total Taxation	61,274	**64,310**	59,917
Government of Canada	13,582	**14,036**	13,251
Income from Investment in Government Business Enterprises *(Schedule 8)*	3,920	**4,196**	4,308
Other	6,954	**7,855**	6,749
	85,730	**90,397**	84,225
Expenses *(Schedules 2 and 3)*			
Health	35,516	**35,698**	32,947
Education	12,062	**12,058**	11,621
Children's and Social Services	10,227	**10,442**	9,985
Interest on Debt	9,429	**8,831**	9,019
Environment, Resources and Economic Development	6,534	**7,697**	8,441
Postsecondary Education and Training	5,201	**5,383**	4,689
Justice	3,167	**3,224**	3,037
General Government and Other	4,944	**4,795**	4,188
	87,080	**88,128**	83,927
Reserve	1,000		
Annual Surplus (Deficit)	(2,350)	**2,269**	298
Accumulated Deficit at Beginning of Year		**(109,155)**	(125,743)
Less: Ontario Electricity Financial Corporation Unfunded Liability Adjustment at Beginning of Year *(Note 4)*		**110**	
Less: Net Assets of Broader Public Sector Organizations at Beginning of Year		–	16,290
Accumulated Deficit at End of Year		**(106,776)**	(109,155)

See accompanying Notes and Schedules to the Financial Statements.

[1] Amounts reported in 2006 Budget.

Province of Ontario
Consolidated Statement of Financial Position

As at March 31 ($ Millions)		2007		2006
Liabilities				
Accounts Payable and Accrued Liabilities *(Schedule 4)*		**12,463**		13,206
Debt *(Note 2)*	**156,993**		154,906	
Unamortized Foreign Exchange Gains	**318**		426	
		157,311		155,332
Power Purchase Contracts *(Note 4)*		**2,977**		3,389
Nuclear Funding Liability *(Note 4)*		**–**		768
Pensions and Other Employee Future Benefits *(Note 5)*		**1,398**		1,686
Other Liabilities *(Note 6)*		**4,398**		3,858
		178,547		178,239
Financial Assets				
Cash and Cash Equivalents		**4,329**		4,447
Temporary Investments *(Note 7)*		**2,293**		2,979
Accounts Receivable *(Schedule 5)*		**7,876**		6,423
Loans Receivable *(Schedule 6)*		**7,378**		6,875
Other Assets		**1,590**		2,417
Investment in Government Business Enterprises *(Schedule 8)*		**13,981**		13,170
		37,447		36,311
Net Debt		**(141,100)**		(141,928)
Non-Financial Assets				
Tangible Capital Assets *(Note 8)*		**17,245**		16,034
Net Assets of Broader Public Sector Organizations *(Schedule 9)*		**17,079**		16,739
		34,324		32,773
Accumulated Deficit		**(106,776)**		(109,155)

Contingent Liabilities (Note 9) and Contractual Obligations (Note 10)
See accompanying Notes and Schedules to the Financial Statements.

Province of Ontario
Consolidated Statement of Change in Net Debt

For the year ended March 31 ($ Millions)	2007		2006	
Annual Surplus		**2,269**		298
Acquisition of Tangible Capital Assets	**(2,120)**		(1,675)	
Amortization of Tangible Capital Assets *(Note 8)*	**838**		815	
Proceeds on Sale of Tangible Capital Assets	**20**		45	
Loss (Gain) on Sale of Tangible Capital Assets	**51**		(41)	
Increase in Net Assets of Broader Public Sector Organizations *(Schedule 9)*	**(340)**		(449)	
		(1,551)		(1,305)
Decrease (Increase) in Net Debt		**718**		(1,007)
Net Debt at Beginning of Year		**(141,928)**		(140,921)
Less: Ontario Electricity Financial Corporation Unfunded Liability Adjustment at Beginning of Year *(Note 4)*		**110**		–
Net Debt at End of Year		**(141,100)**		(141,928)

See accompanying Notes and Schedules to the Financial Statements.

Province of Ontario
Consolidated Statement of Cash Flow

For the year ended March 31 ($ Millions)	2007	2006
Operating Transactions		
Annual Surplus	**2,269**	298
Amortization of Tangible Capital Assets *(Note 8)*	**838**	815
Loss (Gain) on Sale of Tangible Capital Assets	**51**	(41)
Income from Investment in Government Business Enterprises *(Schedule 8)*	**(4,196)**	(4,308)
Remittances from Government Business Enterprises *(Schedule 8)*	**3,385**	3,381
Decrease in Liability for Pensions and Other Employee Future Benefits *(Note 5)*	**(288)**	(61)
Decrease in Power Purchase Contracts *(Note 4)*	**(412)**	(396)
Decrease in Nuclear Funding Liability *(Note 4)*	**(768)**	(642)
Decrease in Accounts Payable and Accrued Liabilities *(Schedule 4)*	**(743)**	(371)
Decrease in Other Items	**(479)**	(2,153)
Cash Applied to Operating Transactions	**(343)**	(3,478)
Capital Transactions		
Acquisition of Tangible Capital Assets	**(2,120)**	(1,675)
Proceeds from Sale of Tangible Capital Assets	**20**	45
Increase in Net Assets of Broader Public Sector Organizations *(Schedule 9)*	**(340)**	(449)
Cash Applied to Capital Transactions	**(2,440)**	(2,079)
Investing Transactions		
Decrease in Temporary Investments *(Note 7)*	**686**	1,342
Cash Provided by Investing Transactions	**686**	1,342
Financing Transactions		
Debt Issued	**19,210**	19,955
Debt Retired	**(17,231)**	(21,424)
Cash Provided by (Applied to) Financing Transactions	**1,979**	(1,469)
Net Decrease in Cash and Cash Equivalents	**(118)**	(5,684)
Cash and Cash Equivalents at Beginning of Year	**4,447**	10,131
Cash and Cash Equivalents at End of Year	**4,329**	4,447

See accompanying Notes and Schedules to the Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(ALL TABLES IN MILLIONS OF DOLLARS)

1. Summary of Significant Accounting Policies

Basis of Accounting

The Consolidated Financial Statements are prepared in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the recommendations of the Accounting Standards Board (AcSB) of the CICA.

Reporting Entity

These financial statements report the activities of the Consolidated Revenue Fund combined with those organizations that are controlled by the government.

Public hospitals, specialty psychiatric hospitals, school boards and colleges, collectively referred to as the "Broader Public Sector (BPS) organizations," are consolidated on a sector basis in these financial statements.

Other organizations that are controlled by the Province are individually consolidated provided they meet one of the following criteria: i) their revenues, expenses, assets or liabilities are greater than $50 million, or ii) their outside sources of revenues, deficit or surplus are greater than $10 million. A listing of these organizations is provided in Schedule 7.

The activities of organizations that do not meet the materiality thresholds are reflected in these financial statements through the accounts of the ministries responsible for them. Trusts administered by the government on behalf of other parties are excluded from the reporting entity but are disclosed in Note 11.

Principles of Consolidation

Government organizations, except for government business enterprises and broader public sector organizations, are consolidated on a line-by-line basis with the Consolidated Revenue Fund in these financial statements. Where necessary, adjustments are made to present the accounts of these organizations on a basis consistent with the accounting policies described below, and to eliminate significant inter-organizational accounts and transactions.

Government business enterprises are defined as those government organizations that i) have the financial and operating authority to carry on a business; ii) have as their principal activity and source of revenue the selling of goods and services to individuals and non-government organizations; and iii) are able to maintain their operations and meet their obligations from revenues generated outside the government reporting entity. The activities

of government business enterprises are recorded in the financial statements using the modified equity method. Under this method, government business enterprises are reported in accordance with the accounting principles generally accepted for business enterprises. Their combined net assets are included in the financial statements as Investment in Government Business Enterprises on the Consolidated Statement of Financial Position and their combined net income is shown as a separate item, Income from Investment in Government Business Enterprises, on the Consolidated Statement of Operations.

Broader Public Sector (BPS) organizations are recorded in the financial statements using the equity method. Under the equity method or "one-line" basis, BPS organizations are reported in accordance with the accounting principles generally accepted for governments. Significant gains and losses resulting from inter-organizational transactions occurring from within the government reporting entity are eliminated upon consolidation. Their combined net assets are included in the financial statements as Net Assets of Broader Public Sector Organizations on the Consolidated Statement of Financial Position. Their combined net expenses, that is, the total annual expenses of all BPS organizations net of revenues they receive from sources other than the Province, are included in Expenses on the Consolidated Statement of Operations. The combined net expenses of hospitals are included with Health expenses, school board net expenses are included with Education expenses, and college net expenses are included in Postsecondary Education and Training expenses in the Consolidated Statement of Operations.

Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount.

Measurement uncertainty in these financial statements and notes thereto exists in the valuation of the power purchase contracts, the accruals for pensions and other employee future benefits obligations, the value of tangible capital assets, and the accruals for personal income and corporations tax revenues.

The nature of the uncertainty in the valuation of the power purchase contracts arises from fluctuations in market prices that would impact this liability. The uncertainty related to pensions and other employee future benefits accruals arises because actual results may differ significantly from the Province's best estimate of expected results (for example, the difference between actual results and actuarial assumptions regarding return on investment of pension fund assets and health care cost trend rates for retiree benefits). Uncertainty in the value of tangible capital assets exists because of differences between estimated useful lives and actual useful lives. Uncertainty related to the accrual for personal tax and corporations tax revenues arises because of the possible difference between the estimated and actual economic growth and the impact of future tax assessments on taxes receivable.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available.

Revenues

Revenues are recognized in the fiscal year that the events giving rise to the revenues occur and they are earned. Amounts received prior to the end of the year, which relate to revenues that will be earned in a subsequent fiscal year, are deferred and reported as liabilities.

Expenses

Expenses are recognized in the fiscal year that the events giving rise to the expense occur and resources are consumed. Expenses include:

- accounts payable accruals
- transfer payments
- interest accruing on debt
- pension and other employee future benefits
- the amortization of tangible capital assets
- net expenses of hospitals, school boards and colleges.

Transfer payments are recognized in the year during which the payment is authorized, all eligibility criteria are met and a reasonable estimate of the amount can be made.

Interest on Debt includes the following: i) interest on outstanding debt net of interest income on investments and loans; ii) amortization of foreign exchange gains or losses; iii) amortization of debt discounts, premiums and commissions; iv) amortization of deferred hedging gains and losses; and v) servicing and other costs.

Employee future benefits such as pensions, other retirement benefits and entitlements upon termination are recognized as expenses over the years in which the benefits are earned by employees. These expenses are the government's share of the cost of benefits including the current year's cost of benefits, interest on the net benefits liability or surplus, amortization of actuarial gains or losses, cost of or gain on plan amendment, and other adjustments.

Other employee future benefits are either recognized in the period when the event that obligates the government occurs or when the benefits are earned and accumulated by employees.

The costs of buildings and transportation infrastructure owned by the Province are amortized and recognized as expenses over their estimated useful lives on a straight-line basis. Amortization of tangible capital assets owned by government organizations consolidated in these financial statements is also included in expenses.

The Province is phasing in the implementation of PSAB recommendations on tangible capital assets. Consequently, the costs of acquisition of other tangible capital assets owned by the Province, such as furniture and vehicles, are recorded as expenses. Also, for significant capital leases entered into by the Province, an amount equal to the present value of the minimum lease payments required over the term of the lease is recorded as an expense at the inception of the lease, with an offsetting liability recorded for the lease obligation.

Liabilities

Liabilities are recorded to the extent that they represent present obligations of the government to outside parties as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in the sacrifice of economic benefits in the future.

Liabilities include present obligations for environmental costs, probable losses on loan guarantees issued by the government, and contingencies when it is likely that a loss will be realized and the amount can be reasonably determined.

Liabilities also include obligations to government business enterprises.

Debt

Debt consists of treasury bills, commercial paper, medium and long-term notes, savings bonds, debentures and loans.

Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the hedge agreements. Other foreign currency debt, liabilities and assets are translated to Canadian dollars at year-end rates of exchange and any exchange gains or losses are amortized over the remaining term to maturity.

The Province uses derivative financial instruments (derivatives) for the purposes of minimizing interest costs and managing risk. The Province does not use derivatives for speculative purposes. Derivatives are financial contracts, the value of which is derived from underlying instruments. Gains or losses arising from derivative transactions are deferred and amortized over the remaining life of the related debt issue.

Pensions and Other Employee Future Benefits

The liabilities for pensions and other employee future benefits are calculated on an actuarial basis using the government's best estimates of future inflation rates, investment returns, employee salary levels and other underlying assumptions, and where applicable, the

government's borrowing rate. When actual plan experience of pensions, other retirement benefits and termination pay differs from that expected, or when assumptions are revised, actuarial gains and losses arise. These gains and losses are amortized over the expected average remaining service life of plan members.

The liabilities for selected employee future benefits (such as pensions, other retirement benefits and termination pay) represent the government's share of the actuarial present values of benefits attributed to services rendered by employees and former employees, less its share of the assets of the plans. In addition, the liability includes the Province's share of the unamortized balance of actuarial gains or losses, and other adjustments primarily for differences between the fiscal year-ends of the pension plans and the Province.

Assets

Assets are resources controlled by the government from which it will derive future benefits. Assets are recognized in the year the events giving rise to the government's control of the benefit occur.

Financial Assets

Financial assets are resources that can be used to discharge existing liabilities or finance future operations. They include cash, temporary investments, accounts receivable, loans receivable, advances, and investments in government business enterprises.

Temporary investments are recorded at the lower of cost or fair value.

Accounts receivables are recorded at cost. A valuation allowance is recorded when collection of the receivable is considered doubtful.

Loans receivable with significant concessionary terms are considered in part as grants and are recorded on the date of issuance at face value discounted by the amount of the grant portion. The grant portion is recognized as an expense at the date of issuance of the loan. The amount of the loan discount is amortized to revenue over the term of the loan. Loans receivable include amounts owing from government business enterprises.

Investment in government business enterprises represents the net assets of government business enterprises recorded on the modified equity basis as described under Principles of Consolidation.

Net Assets of Broader Public Sector Organizations

The net assets of the broader public sector (BPS) organizations consist of tangible capital and financial assets of BPS organizations net of their liabilities. While the assets of BPS organizations are consolidated, they are owned, managed and operated by BPS organizations. Tangible capital assets of hospitals and colleges are recorded at historical cost in their financial statements. Interest incurred during construction of major projects is capitalized and included in historical cost when specific project financing is provided. Although school boards do not presently record tangible capital assets in their financial

statements, an adjustment is made upon consolidation to record the estimated historical cost of their land and building assets in the Province's financial statements.

Tangible Capital Assets

Tangible capital assets are recorded at historical cost. Historical cost includes the costs directly related to the acquisition, design, construction, development, improvement or betterment of tangible capital assets. Cost includes overheads directly attributable to construction and development but excludes interest. Estimated historical cost was used to record existing tangible capital assets if actual cost was unknown when the Province first implemented tangible capital assets accounting.

As the Province is phasing in the implementation of PSAB recommendations on provincially owned tangible capital assets, the following categories are included under tangible capital assets and recorded at historical cost: land, buildings and transportation infrastructure owned by the Province; and all tangible capital assets owned by government organizations that are consolidated in these financial statements. The remaining other tangible capital assets, including leased assets, computers, equipment, vehicles and furniture, are expensed as acquired. The Province intends to apply PSAB's recommendations on the remaining other tangible capital assets in 2009–10.

Maintenance and repair costs are recognized as an expense when incurred. Betterments or improvements that significantly increase or prolong the service life or capacity of a tangible capital asset are capitalized. External contributions for acquisition of tangible capital assets are recorded as deferred revenue and amortized on the same basis as the related tangible capital assets.

2. Debt

The Province borrows in both domestic and international markets. Debt of $157.0 billion, as at March 31, 2007 (2006, $154.9 billion), is composed of mainly bonds and debentures issued in both the short and long-term public capital markets and non-public debt held by certain federal and provincial public sector pension plans. Debt comprises Debt Issued for Provincial Purposes of $129.1 billion (2006, $126.9 billion) and Ontario Electricity Financial Corporation (OEFC) debt of $27.9 billion (2006, $28.0 billion). The table on page 43 presents the maturity schedule of the Province's outstanding debt, by currency of repayment, expressed in Canadian dollars, and reflects the effects of related derivative contracts.

Debt As at March 31						2007	2006
Currency	Canadian Dollar	U.S. Dollar	Japanese Yen	Euro[1]	Other Currency[2]	Total	Total
Maturing in:							
2007							$21,421
2008	$13,213	5,461	320	–	228	**$19,222**	14,019
2009	15,406	4,090	–	795	265	**20,556**	19,416
2010	9,069	1,629	709	1,443	870	**13,720**	13,115
2011	6,186	–	–	–	252	**6,438**	6,254
2012	5,944	1,136	–	–	47	**7,127**	–
1–5 years	49,818	12,316	1,029	2,238	1,662	**67,063**	74,225
6–10 years	22,902	7,606	98	1,188	2,018	**33,812**	29,980
11–15 years	6,424	–	–	–	–	**6,424**	4,694
16–20 years	12,300	–	–	–	–	**12,300**	11,766
21–25 years	13,606	–	–	–	–	**13,606**	12,843
26–40[3] years	23,788	–	–	–	–	**23,788**	21,398
Total[4, 5]	**$128,838**	**19,922**	**1,127**	**3,426**	**3,680**	**$156,993**	$154,906
Debt Issued for Provincial Purposes[6]	**105,180**	**16,617**	**1,127**	**3,426**	**2,753**	**129,103**	126,873
OEFC Debt	**23,658**	**3,305**	**–**	**–**	**927**	**27,890**	28,033
Total[4, 5]	**$128,838**	**19,922**	**1,127**	**3,426**	**3,680**	**$156,993**	$154,906
Effective Interest Rates (Weighted Average)							
2007	**6.28%**	**4.93%**	**3.48%**	**5.13%**	**4.46%**	**6.02%**	**–**
2006	6.39%	5.04%	4.09%	5.61%	4.44%	–	6.14%

1 Euro debt includes debt issues in Euro and French franc legacy currency.

2 Other currencies comprise Australian dollar, New Zealand dollar, Pound sterling, Swiss franc, Hong Kong dollar, South African rand and New Turkish lira.

3 The longest term to maturity is to June 2, 2047.

4 Total foreign currency denominated debt as at March 31, 2007, was $28.2 billion (2006, $27.4 billion). Of that, $27.2 billion or 96.4% (2006, $26.3 billion or 95.9%) was fully hedged to Canadian dollars. The remaining 3.6% (2006, 4.1%) of foreign debt was unhedged as follows: $291 million (2006, $384 million) U.S. dollar denominated debt, $686 million (2006, $695 million) Japanese yen denominated debt and $24 million (2006, $23 million) Swiss franc denominated debt.

5 Total debt includes issues totalling $3.3 billion (2006, $4.8 billion), which have embedded options exercisable by either the Province or the bond holder under specific conditions.

6 Debt denominated in Canadian dollars as at March 31, 2007 includes $1.0 billion (2006, $1.0 billion) long-term debt purchased and held by the Province.

Debt As at March 31	2007	2006
Debt Payable to:		
Public Investors	**$134,431**	$130,760
Canada Pension Plan Investment Fund	**10,233**	10,233
Ontario Teachers' Pension Plan	**6,411**	7,596
Public Service Pension Plan	**2,502**	2,705
Ontario Public Service Employees Union Pension Fund	**1,188**	1,285
Canada Mortgage and Housing Corporation	**914**	960
Others[1]	**1,314**	1,367
Total	**$156,993**	$154,906

[1] Debt payable to others includes debt payable to Ryerson Retirement Pension Plan, the School Board Trust Debt, debt of Ontario Immigrant Investor Corporation, debt of Royal Ontario Museum and Independent Electricity System Operator.

Fair value of debt issued approximates amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing the Province's debt, fair value is estimated using discounted cash flows and other valuation techniques and is compared to public market quotations where available. These estimates are affected by the assumptions made concerning discount rates and the amount and timing of future cash flows.

The estimated fair value of debt at March 31, 2007 was $174.7 billion (2006, $170.6 billion). This is higher than the book value of $157.0 billion (2006, $154.9 billion) because current interest rates are generally lower than the interest rates at which the debt was issued. The fair value of debt does not reflect the effect of related derivative contracts.

School Board Trust Debt

A School Board Trust was created in June 2003 to permanently refinance debt incurred by 55 school boards. The Trust issued 30-year sinking fund debentures amounting to $891 million in June 2003. The Trust provided $882 million of the proceeds to the 55 school boards in exchange for the irrevocable right to receive future transfer payments from the Province related to this debt. These amounts will be reduced over the 30-year period by the transfer payments made by the Ministry of Education to the Trust under the School Board Operating Grant program. As at March 31, 2007, the outstanding amount of $840 million (2006, $854 million) advanced to school boards is included in Other Assets and outstanding debentures of $848 million (2006, $863 million) are included in Debt.

3. Risk Management and Derivative Financial Instruments

The Province employs various risk management strategies and operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost-effective manner. A variety of strategies are used, including the use of derivative financial instruments ("derivatives").

Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to minimize interest costs. Hedges are created primarily through swaps, which are legal contracts under which the Province agrees with another party to exchange cash flows based on one or more notional amounts using stipulated reference interest rates for a specified period. Swaps allow the Province to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures, options, caps and floors.

Foreign exchange or currency risk is the risk that foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, the Province uses derivative contracts including foreign exchange forward contracts, futures, options and swaps to convert foreign currency cash flows into Canadian dollar denominated cash flows. Most of the derivative contracts hedge the underlying debt by matching all the critical terms to achieve effectiveness. In the instances where the term of foreign exchange forward contracts used for hedging is shorter than the term of the underlying debt, the effectiveness is maintained by continuously rolling the foreign exchange forward contract over the remaining term of the underlying debt, or until replaced with a long-term derivative contract.

The current policy allows the net of unhedged foreign currency debt principal net of foreign currency holdings to reach a maximum of 5 per cent of Debt Issued for Provincial Purposes and OEFC debt. At March 31, 2007, the respective unhedged levels were 0.7 and nil per cent (2006, 0.8 and nil per cent). For every one-cent increase in the Canadian dollar versus the U.S. dollar, there would be an increase in the debt amount of $2.5 million (2006, $3.0 million) and an increase in Interest on Debt of $2.4 million (2006, $1.7 million). For every one Japanese yen decrease versus the Canadian dollar, there would be an increase in debt amount of $7.0 million (2006, $7.0 million) and an increase in Interest on Debt of $2.4 million (2006, $2.0 million). Total foreign exchange gains recognized in the Statement of Operations for 2006–07 were $127 million (2005–06, $112 million).

Interest on debt expense may also vary as a result of changes in interest rates. In respect of Debt Issued for Provincial Purposes and OEFC debt, the risk is measured as interest rate resetting risk, which is the net of floating rate exposure, liquid reserves and fixed rate debt maturing within the next 12-month period as a percentage of Debt Issued for Provincial Purposes and OEFC debt respectively. Depending on market conditions, the Province creates or reduces its exposure to interest rate changes by issuing or retiring short-term

debt, or by entering into or closing out derivative positions. The current policy limits interest rate resetting risk for Debt Issued for Provincial Purposes and OEFC to a maximum of 35 per cent.

As at March 31, 2007, interest rate resetting risk for Debt Issued for Provincial Purposes and OEFC debt was 15.3 per cent and 14.4 per cent (2006, 14.1 per cent and 20.3 per cent). Based on floating rate interest-bearing financial instruments on hand at the balance sheet date plus planned refinancing of maturing debt in the coming year, a one per cent (100 basis points) increase in interest rates would result in an increase in Interest on Debt of $250 million (2006, $250 million).

Liquidity risk is the risk that the Province will not be able to meet its current short-term financial obligations. To reduce liquidity risk, the Province maintains liquid reserves, that is, cash and temporary investments (Note 7), at levels that will meet future cash requirements and will give the Province flexibility in the timing of issuing debt. In addition, the Province has short-term note programs as alternative sources of liquidity.

The table below presents a maturity schedule of the Province's derivatives, by type, outstanding at March 31, 2007, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Derivative Portfolio Notional Value
As at March 31

Maturity in Fiscal Year	2008	2009	2010	2011	2012	6–10 Years	Over 10 Years	2007 Total	2006 Total
Swaps:									
Interest Rate	$13,798	$12,152	$8,716	$2,111	$2,536	$24,032	$5,220	**$68,565**	$64,735
Cross Currency	6,106	5,301	5,717	499	1,231	12,466	–	**31,320**	28,435
Forward Foreign Exchange Contracts	1,771	32	–	–	–	–	–	**1,803**	3,639
Caps and Floors	50	–	88	–	–	–	–	**138**	532
Futures	–	–	–	–	–	–	–	**–**	–
Total	$21,725	$17,485	$14,521	$2,610	$3,767	$36,498	$5,220	**$101,826**	$97,341

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which the Province has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2007.

Credit Risk Exposure As at March 31	2007	2006
Gross Credit Risk Exposure[1]	$1,083	$1,507
Less: Netting[2]	(898)	(1,395)
Net Credit Risk Exposure	**$ 185**	**$ 112**

1 Gross credit risk exposure is the gross credit exposure to counterparties with net positive exposure (that is, the Province has an unrealized gain).

2 "Netting" is the gross negative credit exposure to counterparties with net positive credit exposures covered by master agreements providing for close out netting when contracts do not have co-terminus settlement dates.

The Province manages its credit risk exposure from derivatives by, among other things, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. In addition, the Province enters into contractual agreements ("master agreements") that provide for termination netting and, if applicable, payment netting with most of its counterparties. Gross credit risk exposure represents the loss that the Province would incur if every counterparty to which the Province had credit risk exposure were to default at the same time, and the contracted netting provisions were not exercised or could not be enforced. Net credit risk exposure is the loss including the mitigating impact of these netting provisions.

4. Ontario Electricity Financial Corporation Liabilities

The Ontario Electricity Financial Corporation (OEFC) is consolidated as a government organization in these financial statements. The opening accumulated deficit of the Province has been adjusted to reflect an adjustment to the opening Unfunded Liability of the OEFC. The opening Unfunded Liability of OEFC was reduced by $110 million to reflect the elimination of a working capital adjustment payable to Ontario Power Generation Inc. (OPG) that was originally recorded in OEFC's Unfunded Liability. It was subsequently determined that there was no obligation for this amount.

In addition to the current liabilities and long-term debt of OEFC, recorded in these financial statements under Accounts Payable and Accrued Liabilities and Debt respectively, the following liabilities of OEFC are also reflected in these financial statements:

i) Power Purchase Contracts

Power purchase contracts and related loan agreements were entered into by Ontario Hydro with non-utility generators (NUGs) located in Ontario. As the legal continuation of Ontario Hydro, OEFC is the counterparty to these contracts. A liability arose because these contracts, expiring on various dates to 2048, provided for the purchase of power at prices that were expected to be in excess of the market price.

The NUG liability had been valued at $4.3 billion on a discounted cash-flow (DCF) basis since Ontario Hydro was continued as OEFC on April 1, 1999. Prior to open access to the electricity market in May 2002, power purchased from NUGs was resold at cost to the revenue pool managed by OPG. After the market opened, OEFC sustained annual losses

on power purchased from NUGs. The DCF model was updated as of March 31, 2003, which reduced the estimated liability by $422 million to $3.7 billion. This revaluation change is being amortized to operations over a 10-year period.

Under the *Electricity Restructuring Act, 2004*, effective January 1, 2005, OEFC began receiving actual contract prices for power from ratepayers and will no longer incur losses on these power purchase contracts. At that time, Ministry of Finance estimated that the bulk of the liability would be eliminated over 12 years as existing electricity contracts expire. The decrease in the liability for power purchase contracts for 2006–07 was $412 million (2005–06, $396 million). This results in a liability of $3.0 billion as at March 31, 2007 (2006, $3.4 billion).

ii) Nuclear Funding Liability

The OEFC, as the continued Ontario Hydro, assumed a liability in the amount of $2.4 billion representing nuclear waste management and station decommissioning liabilities that were incurred prior to April 1, 1999. The Province and OPG are parties to the Ontario Nuclear Funds Agreement (ONFA) to establish, fund and manage segregated funds to ensure that sufficient funds are available to pay for costs of nuclear waste management and station decommissioning for existing OPG nuclear stations.

The board of directors of OEFC approved the funding of OEFC's nuclear liability to the Decommissioning Segregated Fund over a four-year period. Contributions by OEFC began in 2003 and the entire liability including interest has been discharged with a final payment on March 30, 2007.

5. Pensions and Other Employee Future Benefits

Pensions and Other Employee Future Benefits Liability (Asset)

As at March 31	2007 Pensions	2007 Other Employee Future Benefits	2007 Total	2006 Total
Obligation for benefits	$61,236	$5,818	**$67,054**	$64,512
Less: plan fund assets	(68,407)	(364)	**(68,771)**	(64,111)
Unamortized actuarial gains (losses)	2,850	(1,059)	**1,791**	(189)
Adjustments[1]	1,324	–	**1,324**	1,474
Total	**$(2,997)**	**$4,395**	**$1,398**	$ 1,686

[1] Adjustments for pensions consist of:
i) differences for amounts reported by the pension plans at December 31, instead of the Province's year-end of March 31
ii) unamortized difference between employer and employee contributions for jointly sponsored pension plans
iii) unamortized employee contribution reductions for solely sponsored plans
iv) unamortized initial unfunded liabilities of jointly sponsored plans
v) amounts payable by the Province that are reflected as contributions in the pension plan assets.

Pensions and Other Employee Future Benefits Expense

For the year ended March 31	2007 Pensions	2007 Other Employee Future Benefits	2007 Total	2006 Total
Cost of benefits	$1,533	$327	**$1,860**	$1,768
Amortization of actuarial losses (gains)	(336)	94	**(242)**	(387)
Employee contributions	(186)	–	**(186)**	(173)
Cost of plan amendments	–	–	**–**	255
Interest expense (revenue)	(285)	224	**(61)**	(110)
Adjustments[1]	(209)	–	**(209)**	(113)
Total[2]	**$517**	**$645**	**$1,162**	$1,240

1 Adjustments for Pensions consist of amortization of:
i) the difference between employer and employee contributions for jointly sponsored pension plans
ii) employee contribution reductions for solely sponsored plans
iii) initial unfunded liability of jointly sponsored pension plans.

2 Total Pensions and Other Employee Future Benefits Expense is reported in Schedule 2. The Teachers' Pension expense of $345 million (2005–06, $295 million) is included in the Education expense in the Consolidated Statement of Operations and is disclosed separately in Schedule 3. The Public Service and OPSEU Pension expense of $172 million (2005–06, $227 million) and Other Employee Future Benefits — Retirement Benefits expense of $385 million (2005–06, $502 million) are included in the General Government and Other expense in the Consolidated Statement of Operations. The combined total of Public Service and OPSEU Pension and Other Employee Future Benefits — Retirement Benefits expense of $557 million (2005–06, $729 million) is disclosed separately in Schedule 3. The remainder of Other Employee Future Benefits expense is included in the relevant ministries' expenses in Schedule 3.

Pensions

The Province sponsors several pension plans. It is the sole sponsor of the Public Service Pension Plan (PSPP) and joint sponsor of the Ontario Public Service Employees Union (OPSEU) Pension Plan and the Ontario Teachers' Pension Plan (OTPP).

These three plans are contributory defined benefit plans that provide Ontario government employees and elementary and secondary school teachers and administrators with a guaranteed amount of retirement income. Benefits are based primarily on the best five-year average salary of members and their length of service, and are indexed to changes in the Consumer Price Index to provide protection against inflation. Plan members normally contribute seven to nine per cent of their salary to these plans. The Province matches these contributions.

Funding of these plans is based on statutory actuarial funding valuations undertaken at least every three years. The Province contributed $797 million to OTPP in 2006–07 (2005–06, $740 million), $218 million (including $75 million special payment) to PSPP (2005–06, $136 million) and $143 million to OPSEU Pension Plan (2005–06, $143 million). During calendar year 2006, OTPP paid benefits, including transfers to other plans of $3.8 billion (2005, $3.6 billion), PSPP paid $822 million (2005, $793 million) and OPSEU Pension Plan paid $529 million (2005, $524 million). Under agreements between the

Province and OPSEU, and between the Province and the Ontario Teachers' Federation (OTF), gains and losses arising from statutory actuarial funding valuations are shared by the co-sponsors.

The government's best estimate of the future annual inflation rate used in the pension and other employee future benefits calculations disclosed in these financial statements is 2.5 per cent; the salary escalation rate is 3.5 per cent; and the discount rate and expected rate of return on pension plan assets are 6.75 per cent for OTPP, 6.5 per cent for PSPP and 6.75 per cent for OPSEU Pension Plan. Actuarial gains or losses are amortized over periods of 10 to 14 years.

The Province is also responsible for sponsoring the Ontario Teachers' Retirement Compensation Arrangement and the Public Service Supplementary Benefits Plan. Expenses and liabilities of these plans are included in the Pensions Expense and Pensions Liability reported in the above tables.

Other Employee Future Benefits

Other Employee Future Benefits are non-pension retirement benefits, post-employment benefits and compensated absences. The discount rate used in the Other Employee Future Benefits (except retirement benefits) calculation for 2006–07 is 4.90 per cent (2005–06, 4.65 per cent).

Retirement Benefits

The Province provides dental, basic life insurance, supplementary health and hospital benefits to retired employees through a self-insured, unfunded defined benefit plan. The Province paid $122 million for benefits under the plan in 2006–07 (2005–06, $119 million). The liability for non-pension retirement benefits of $2.7 billion as at March 31, 2007 (2006, $2.5 billion) is included in the Other Employee Future Benefits Liability. The expense for 2006–07 of $385 million (2005–06, $502 million) is included in the Other Employee Future Benefits Expense.

The discount rate used in the other retirement benefits calculation for 2006–07 is 5.10 per cent (2005–06, 5.15 per cent).

The Province entered into an agreement with OPSEU to change various supplemental health benefits in 2005. The cost of these changes of $211 million was included in the 2005–06 Other Employee Future Benefits Expense.

Post-Employment Benefits

For employees who have completed five years of service, the Province provides termination pay equal to one week's salary for each year of service up to a maximum of 50 per cent of their annual salary. Employees who have completed one year of service but less than five years are also entitled to termination pay in the event of death, retirement or release from employment. The termination pay benefits are unfunded and are administered by the Province. The Province paid out $48 million in termination pay in 2006–07

(2005–06, $49 million). The liability for termination pay of $834 million as at March 31, 2007 (2006, $805 million) is included in the Other Employee Future Benefits Liability. The expense for 2006–07 of $78 million (2005–06, $76 million) is included in the Other Employee Future Benefits Expense.

The Province also provides, on a self-insured basis, workers' compensation benefits, long-term disability benefits and regular benefits to employees who are on long-term disability. The liability for workers' compensation of $416 million as at March 31, 2007 (2006, $360 million) net of deposits of $2 million (2006, $3 million) is included in the Other Employee Future Benefits Liability. The expense for 2006–07 of $98 million (2005–06, $53 million), including a $42 million payment made in 2006–07 (2005–06, $41 million), is included in the Other Employee Future Benefits Expense.

The unfunded liability for long-term disability benefits of $222 million as at March 31, 2007 (2006, $209 million) is net of deposits of $362 million (2006, $322 million), and is included in the Other Employee Future Benefits Liability. The 2006–07 expense of $77 million (2005–06, $82 million) is included in the Other Employee Future Benefits Expense. A $64 million payment for long-term disability benefits was made in 2006–07 (2005–06, $56 million).

6. Other Liabilities

Other Liabilities As at March 31	2007	2006
Deferred Revenue:		
Federal Transfers	$1,628	$1,407
Vehicle and Driver Licences	636	579
Other	782	562
Total Deferred Revenue	3,046	2,548
Other Funds and Liabilities	1,352	1,310
Total	**$4,398**	**$3,858**

Federal transfers were received by the Province to provide multi-year funding for provincial expenditures. They are recognized as revenue in the periods identified by the federal government in the underlying agreements.

Deferred Revenue — Federal Transfers

	Total Transfer Received	Included in Revenue		Revenue Deferred to Future Periods		Deferred Revenue
		2005–06 and prior	2006–07	2007–08	2008–09 and thereafter	As at March 31, 2007
Wait Times Reduction	$1,655	$485	$467	$468	$235	**$703**
Post-Secondary Education Infrastructure	390	–	195	195	–	**195**
Public Transit Capital	352	–	117	117	118	**235**
Affordable Housing	312	–	117	117	78	**195**
Other Federal Transfers	346	7	39	85	215	**300**
Total	$3,055	$492	$935	$982	$646	**$1,628**

The Province provides a two-year vehicle licence plate renewal option and multi-year driver licence renewals (two years for seniors and five years for all others). Amounts received under these multi-year renewals are recognized as revenue over the periods covered by the licences.

Other deferred revenue includes deferred capital contributions of $531 million (2006, $313 million) from external sources for the acquisition and construction of tangible capital assets owned by the Province.

Other funds and liabilities include pension and benefit funds related to the Provincial Judges' Pension Fund, the Public Service and the Deputy Ministers' Supplementary Benefit Accounts, externally restricted funds and other miscellaneous liabilities.

7. Temporary Investments

Temporary Investments As at March 31	2007	2006
Temporary Investments	**$7,764**	$7,327
Add: Assets Purchased under Resale Agreements	**–**	80
Less: Assets Sold under Repurchase Agreements	**(5,471)**	(4,428)
Total	**$2,293**	$2,979

The fair value of temporary investments, including assets purchased and sold under resale and repurchase agreements, at March 31, 2007 is $2.4 billion (2006, $3.1 billion). Temporary investments primarily consist of investments in government bonds. Fair value is determined using quoted market prices.

A resale agreement is an agreement between two parties to purchase and subsequently resell a security at a specified price on a specified date. A repurchase agreement is an agreement between two parties to sell and subsequently repurchase a security at a specified price on a specified date.

8. Tangible Capital Assets

Tangible Capital Assets As at March 31	2007 Cost	2007 Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
Land	$5,558	$ –	**$5,558**	$5,366
Buildings	4,375	1,456	**2,919**	2,791
Transportation Infrastructure	13,220	5,608	**7,612**	6,932
Other	2,460	1,304	**1,156**	945
Total	$25,613	$8,368	**$17,245**	$16,034

Land includes land acquired for transportation infrastructure, parks, buildings and other program use, and land improvements that have an indefinite life and are not being amortized. Land excludes Crown lands acquired by right.

Buildings include administrative and service structures, and buildings under construction, but leased premises are excluded.

Transportation infrastructure includes provincial highways, railways, bridges and related structures and facilities, but excludes land and buildings.

Other includes railway equipment, computer equipment, vehicles, furniture, and administrative and service equipment owned by government organizations that are consolidated. It is planned to include similar assets owned by provincial ministries in the Province's financial statements in 2009–10. Works of art and historical treasures including the Legislative Building are excluded from tangible capital assets.

All tangible capital assets, except buildings under construction, land and land improvements with an indefinite life, are being amortized on a straight-line basis over their estimated useful lives. Amortization expense for the fiscal year 2006–07 totalled $838 million (2005–06, $815 million). The useful lives of the Province's tangible capital assets have been estimated as:

Buildings	20 to 40 years
Transportation Infrastructure	10 to 60 years
Other	3 to 25 years

9. Contingent Liabilities

Obligations Guaranteed by the Province

The authorized limit for loans guaranteed by the Province as at March 31, 2007 was $2.9 billion (2006, $3.8 billion). The outstanding loans guaranteed and other contingencies amounted to $2.6 billion at March 31, 2007 (2006, $3.3 billion). A provision of $416 million (2006, $504 million) based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been reflected in these financial statements.

Ontario Nuclear Funds Agreement

The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG, are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management.

Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds, for a fixed volume of used fuel. The likelihood and amount by which the cost estimate could rise above these thresholds cannot be determined at this time. The cost estimate will be updated periodically, to reflect new developments in the management of nuclear used fuel waste.

As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario Consumer Price Index for the nuclear used fuel waste management fund. If the earnings on assets in that fund exceed the guaranteed rate, the Province is entitled to the excess.

Two agreements are in place to satisfy the Canadian Nuclear Safety Commission (CNSC) licensing requirements for financial guarantees in respect of OPG's nuclear station decommissioning and nuclear waste management obligations. One agreement gives the CNSC access to the segregated funds established under ONFA. The other agreement provides a direct provincial guarantee to the CNSC on behalf of OPG. This guarantee, for up to $1.5 billion, relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds. In return, the Province receives from OPG an annual fee equal to 0.5 per cent of the value of the direct provincial guarantee.

Social Housing — Loan Insurance Agreements

For all non-profit housing projects in the provincial portfolio, the Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation (CMHC) for any net costs, including any environmental liabilities, incurred as a result of project defaults, directly or indirectly, through the Ministry of Municipal Affairs and Housing or the Ontario Housing Corporation.

At March 31, 2007, there were $8.3 billion (2006, $8.6 billion) of mortgage loans outstanding. As operating subsidies provided are sufficient to ensure that all mortgage payments can be made when due, default is unlikely. To date, there have been no claims for defaults on insured mortgage loans.

Claims Against the Crown

There are claims outstanding against the Crown of which 111 (2006, 94) are for amounts over $50 million. These claims arise from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property and like items. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain.

Canadian Blood Services

The provincial and territorial governments of Canada have entered into a Canadian Blood Services Excess Insurance Captive Support Agreement (the "Captive Support Agreement") with Canadian Blood Services (CBS) and Canadian Blood Services Captive Insurance Company Limited (CBSI), a wholly owned subsidiary of CBS established under the laws of British Columbia. Under the Captive Support Agreement, each government indemnifies CBSI for its pro-rata share of any payments that CBSI becomes obliged to make under a comprehensive blood risks insurance policy it provides to CBS. The policy has an overall limit of $750 million, which may cover settlements, judgments and defence costs. The policy is in excess of, and secondary to, a $250 million comprehensive insurance policy underwritten by CBS Insurance Company Limited, a subsidiary of CBS domiciled in Bermuda. Given current populations, Ontario's maximum potential liability under the Captive Support Agreement is approximately $376 million. The Province is not aware of any proceedings that could lead to a claim against it under the Captive Support Agreement.

10. Contractual Obligations

Contractual Obligations As at March 31	2007	2006	Minimum Payments to be made in: 2008	2009	2010	2011	2012	2013 and thereafter
Ontario Power Generation	**$11,064**	$10,930	$2,542	$2,077	$1,262	$1,650	$1,012	$2,521
Transfer payments	**5,158**	5,193	1,536	639	364	264	245	2,110
Leases	**1,487**	1,452	238	197	159	133	104	656
Construction Contracts	**1,879**	1,007	1,197	467	73	105	4	33
Other	**3,477**	6,581	809	471	409	355	328	1,105
Total Contractual Obligations	**$23,065**	$25,163	$6,322	$3,851	$2,267	$2,507	$1,693	$6,425

Ontario Power Generation Inc.'s contractual obligations include future contributions under the Ontario Nuclear Funds Agreement of $3.2 billion, long-term debt repayment obligations of $3.2 billion and fuel supply agreements of $2.1 billion.

11. Trust Funds Under Administration

Summary financial information from the most recent financial statements of trust funds under administration is provided below.

Workplace Safety and Insurance Board As at December 31	**2006**	2005
Assets	**$16,398**	$14,547
Liabilities	**22,395**	21,057
Unfunded Liability	**(5,997)**	(6,510)
Revenues	**5,341**	4,416
Expenditures	**4,828**	4,506
Surplus (Deficit)	**513**	(90)
Unfunded Liability, Beginning of Year	**(6,510)**	(6,420)
Unfunded Liability, End of Year	**$(5,997)**	$(6,510)

Other Trust Funds
As at March 31, 2007

	Assets	**Liabilities**	**Fund Balance (Unfunded Liability)**
The Public Guardian and Trustee for Province of Ontario	**$1,292**	**$1,203**	**$89**
Motor Vehicle Accident Claims Fund	**$54**	**$232**	**$(178)**
Pension Benefits Guarantee Fund	**$152**	**$265**	**$(113)**
As at December 31, 2006	**Assets**	**Liabilities**	**Fund Balance**
Deposit Insurance Corporation of Ontario	**$111**	**$11**	**$100**

Any unfunded liability of trusts under administration are not included in the Province's financial statements as they are the responsibility of external parties. The most recent financial statements of these trusts are reproduced in Volume 2 of the Public Accounts of Ontario.

12. Comparative Figures

The comparative figures have been reclassified as necessary to conform to the 2007 presentation.

Schedules to the Consolidated Financial Statements

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Province of Ontario
Schedule 1: Revenues

($ Millions)	2006–07 Budget[1]	2006–07 Actual	2005–06 Actual
Taxation			
Personal Income Tax	21,671	**23,655**	21,041
Retail Sales Tax	16,165	**16,228**	15,554
Corporations Tax	9,845	**10,845**	9,984
Employer Health Tax	4,314	**4,371**	4,197
Ontario Health Premium	2,551	**2,589**	2,350
Gasoline Tax	2,303	**2,310**	2,281
Tobacco Tax	1,485	**1,236**	1,379
Land Transfer Tax	1,125	**1,197**	1,159
Electricity Payments-In-Lieu of Taxes	790	**757**	951
Fuel Tax	742	**723**	729
Other Taxes	283	**399**	292
	61,274	**64,310**	59,917
Government of Canada			
Canada Health Transfer	7,619	**7,702**	7,148
Canada Social Transfer	3,166	**3,225**	3,052
CHST Supplements	—	**—**	584
Social Housing	530	**532**	520
Wait Times Reduction Fund	467	**467**	243
Early Learning and Child Care	254	**253**	272
Post Secondary Education Infrastructure Trust	—	**195**	—
Infrastructure Programs	359	**191**	285
Medical Equipment Funds	—	**—**	194
Labour Market Development Agreement	—	**184**	—
Indian Welfare Services Agreement	168	**179**	182
Public Transit Capital Trust	—	**117**	—
Affordable Housing Trust	—	**117**	—
Bilingualism Development	79	**82**	86
Labour Market Agreement for Persons with Disabilities	72	**76**	81
Youth Criminal Justice	66	**64**	67
Public Health and Immunization Trust	53	**53**	52
Legal Aid Criminal	43	**51**	51
Other	706	**548**	434
	13,582	**14,036**	13,251

Province of Ontario
Schedule 1: Revenues (cont'd)

($ Millions)	2006–07 Budget[1]	2006–07 Actual	2005–06 Actual
Income from Investment in Government Business Enterprises (Schedule 8)	3,920	**4,196**	4,308
Other			
Sales and Rentals	396	**1,108**	465
Electricity Debt Retirement Charge	1,027	**991**	1,021
Vehicle and Driver Registration Fees	1,021	**970**	763
Power Sales	988	**863**	779
Local Services Realignment	811	**809**	775
Other Fees and Licences	556	**624**	550
Liquor Licence Board of Ontario Revenues	453	**467**	516
Net Reduction of Power Purchase Contracts	412	**412**	396
Royalties	243	**215**	191
Independent Electricity System Operator Revenue	145	**124**	141
Miscellaneous	902	**1,272**	1,152
	6,954	**7,855**	6,749
Total Revenues	85,730	**90,397**	84,225

[1] Amounts reported in 2006 Budget.

Province of Ontario
Schedule 2: Expenses by Object

For the year ended March 31 ($ Millions)	2007	2006
Transfer Payments	**66,571**	62,636
Interest on Debt	**8,831**	9,019
Salaries and Wages	**4,707**	4,477
Services	**3,202**	2,747
Pensions and Other Employee Future Benefits *(Note 5)*	**1,162**	1,240
Power Purchases	**863**	803
Supplies and Equipment	**858**	794
Amortization of Tangible Capital Assets *(Note 8)*	**838**	815
Employee Benefits	**636**	573
Transportation and Communication	**322**	445
Increase in Net Assets of Broader Public Sector Organizations *(Schedule 9)*	**(340)**	(449)
Other	**478**	827
Total Expenses	**88,128**	83,927

Province of Ontario
Schedule 3: Expenses by Ministry

($ Millions)	2006–07 Budget[1]	2006–07 Actual	2005–06 Actual
Aboriginal Affairs Secretariat	21	25	50
Agriculture, Food and Rural Affairs	896	1,078	1,147
Attorney General	1,297	1,348	1,287
Board of Internal Economy	169	163	150
Children and Youth Services	3,198	3,260	3,267
Citizenship and Immigration	90	116	92
Community and Social Services	7,029	7,182	6,718
Community Safety and Correctional Services	1,870	1,876	1,750
Culture	366	410	475
Democratic Renewal Secretariat	10	6	2
Economic Development and Trade	328	199	176
Education	472	423	440
School Boards *(Schedule 9)*	11,182	11,290	10,886
Teachers' Pension *(Note 5)*	408	345	295
Energy	229	229	207
Environment	301	314	274
Executive Offices	19	19	19
Finance	1,192	1,327	1,297
Contingency Fund	995	—	—
Interest on Debt	9,429	8,831	9,019
Power Purchases	988	863	803
Government Services	795	856	625
Public Service/OPSEU Pension and Other Employee Future Benefits *(Note 5)*	594	557	729
Health and Long-Term Care	19,028	19,162	17,841
Hospitals *(Schedule 9)*	16,133	16,145	14,816
Health Promotion	355	391	290
Intergovernmental Affairs	9	11	10
Labour	150	147	141
Municipal Affairs and Housing	692	843	926
Natural Resources	678	734	628
Northern Development and Mines	347	318	337
Office of Francophone Affairs	4	4	4
Public Infrastructure Renewal	114	426	107
Capital Contingency Plan	175	—	—
Research and Innovation	317	316	332
Revenue	580	563	442
Small Business and Entrepreneurship	23	25	26
Tourism	161	204	210
Training, Colleges and Universities	3,842	4,110	3,504
Colleges *(Schedule 9)*	1,359	1,273	1,185
Transportation	1,935	2,739	3,420
Year-End Savings[2]	(700)	—	—
Total Expenses	87,080	88,128	83,927

1 Amounts reported in 2006 Budget.
2 For Budget purposes, these items were not allocated to individual ministries.

Province of Ontario
Schedule 4: Accounts Payable and Accrued Liabilities

As at March 31 ($ Millions)	2007	2006
Transfer Payments	4,807	5,125
Interest on Debt	4,014	4,313
Liability for CRA[1] Overpayment	931	1,064
Salaries, Wages and Benefits	569	521
Restructuring	88	200
Other	2,054	1,983
Total Accounts Payable and Accrued Liabilities	**12,463**	13,206

[1] CRA – Canada Revenue Agency.

Province of Ontario
Schedule 5: Accounts Receivable

As at March 31 ($ Millions)	2007	2006
Taxes	6,473	5,045
Transfer Payments[1]	1,376	1,349
Other Accounts Receivable	784	929
	8,633	7,323
Less: Provision for Doubtful Accounts[2]	(2,172)	(2,004)
	6,461	5,319
Government of Canada	1,415	1,104
Total Accounts Receivable	**7,876**	6,423

[1] The transfer payment receivable consists primarily of recoverables of $857 million (2006, $838 million) for the Ontario Disability Support Program – Financial Assistance, and $422 million (2006, $404 million) for Student Support.

[2] The provision for doubtful accounts includes a provision of $788 million (2006, $770 million) for the Ontario Disability Support Program – Financial Assistance, and $344 million (2006, $342 million) for Student Support.

Province of Ontario
Schedule 6: Loans Receivable

As at March 31 ($ Millions)	2007	2006
Government Business Enterprises[1]	**3,453**	3,979
Students[2]	**2,159**	1,986
Municipalities[3]	**1,370**	1,172
School Boards and Colleges[4]	**866**	110
Pension Benefit Guarantee Fund[5]	**297**	308
Industrial and Commercial[6]	**286**	274
Universities[7]	**165**	165
Other	**52**	44
	8,648	8,038
Unamortized Concession Discounts[8]	**(378)**	(283)
Allowance for Doubtful Accounts[9]	**(892)**	(880)
Total Loans Receivable	**7,378**	6,875

1 Loans to government business enterprises bear interest at rates of 4.38% to 6.65% (2006, 3.85% to 6.65%).
2 Loans to students bear interest at rates of 4.25% to 5.00% (2006, 4.25% to 5%).
3 Loans to municipalities bear interest at rates up to 8.00% (2006, 7.38%).
4 Loans to school boards and colleges bear interest at rates of 4.56% to 11.04% (2006, 7.25% to 11.04%).
5 The loan to the Pension Benefit Guarantee Fund bears is interest-free.
6 Loans to industrial and commercial enterprises bear interest at rates up to 7.47% (2006, 11.25%) and include forgivable loans totalling $8.9 million (2006, $19.3 million), which are fully provided for in the allowance for doubtful accounts.
7 Loans to universities are mortgages bearing interest at rates of 6.13% to 11.04% (2006, 5.88% to 10.81%).
8 Unamortized concession discounts are related to loans to municipalities of $128 million (2006, $51 million), loans to Pension Benefit Guarantee Fund of $145 million (2006, $151 million), and loans to industrial and commercial enterprises of $105 million (2006, $81 million).
9 Allowance for doubtful accounts is related to loans to students of $714 million (2006, $693 million), loans to municipalities of $158 million (2006, $158 million), loans to industrial and commercial enterprises and other of $20 million (2006, $29 million).

Repayment terms are as follows:	Principal Repayment	
Years to Maturity	**2007**	2006
1 year	**1,561**	1,818
2 years	**661**	658
3 years	**868**	627
4 years	**748**	832
5 years	**337**	711
1–5 years	**4,175**	4,646
6–10 years	**1,313**	1,006
11–15 years	**400**	197
16–20 years	**366**	161
21–25 years	**297**	60
Over 25 years	**157**	120
Subtotal	**6,708**	6,190
No fixed maturity	**1,940**	1,848
Total	**8,648**	8,038

Province of Ontario
Schedule 7: Government Organizations

Government Business Enterprises[1]	Responsible Ministry
Algonquin Forestry Authority (AFA)	Natural Resources
Hydro One Inc. (HOI)	Energy
Liquor Control Board of Ontario (LCBO)	Public Infrastructure Renewal
Niagara Parks Commission (NPC)	Tourism
Ontario Clean Water Agency (OCWA)	Environment
Ontario Lottery and Gaming Corporation (OLGC)	Public Infrastructure Renewal
Ontario Northland Transportation Commission (ONTC)	Northern Development and Mines
Ontario Power Generation Inc. (OPG)	Energy

Provincial Agencies[1]	Responsible Ministry
Agricorp	Agriculture, Food and Rural Affairs
Agricultural Research Institute of Ontario[2]	Agriculture, Food and Rural Affairs
Cancer Care Ontario	Health and Long-Term Care
Education Quality and Accountability Office	Education
Independent Electricity System Operator	Energy
Infrastructure Ontario[3]	Public Infrastructure Renewal
GO Transit (Toronto Area Transit Operating Authority and Greater Toronto Transit Authority)	Transportation
Legal Aid Ontario	Attorney General
Metropolitan Toronto Convention Centre	Tourism
Northern Ontario Heritage Fund Corporation	Northern Development and Mines
Ontario Educational Communications Authority	Education
Ontario Electricity Financial Corporation	Finance
Ontario Energy Board	Energy
Ontario Financing Authority	Finance
Ontario Mortgage and Housing Corporation[4]	Municipal Affairs and Housing
Ontario Immigrant Investor Corporation	Economic Development and Trade
Ontario Place Corporation	Tourism
Ontario Power Authority	Energy
Ontario Racing Commission	Government Services
Ontario Realty Corporation	Public Infrastructure Renewal
Ontario Science Centre	Culture
Ontario Securities Commission	Finance
Ontario Tourism Marketing Partnership Corporation	Tourism
Ontario Trillium Foundation	Culture
Royal Ontario Museum	Culture
Smart Systems for Health Agency	Health and Long-Term Care
Toronto Waterfront Revitalization Corporation	Public Infrastructure Renewal

1 The most recent audited financial statements of these organizations are reproduced in Volume 2, Public Accounts of Ontario.

2 The organization met the criteria for consolidation in fiscal year 2006–07.

3 Ontario Strategic Infrastructure Financing Authority was amalgamated with Infrastructure Ontario in 2006–07.

4 The name of Ontario Housing Corporation was changed to Ontario Mortgage and Housing Corporation in 2006–07.

Broader Public Sector Organizations

Public Hospitals – Ministry of Health and Long-Term Care

Alexandra Hospital Ingersoll
Alexandra Marine & General Hospital
Almonte General Hospital
Anson General Hospital
Arnprior and District Memorial Hospital
Atikokan General Hospital
Baycrest Centre for Geriatric Care
Bingham Memorial Hospital
Blind River District Health Centre
Bloorview MacMillan Centre
Bluewater Health
Brantford General Hospital
Bridgepoint Hospital
Brockville General Hospital
Cambridge Memorial Hospital
Campbellford Memorial Hospital
Carleton Place and District Memorial Hospital
Casey House Hospice
Chatham-Kent Health Alliance
Children's Hospital of Eastern Ontario
Clinton Public Hospital
Collingwood General and Marine Hospital
Cornwall Community Hospital
Credit Valley Hospital
Deep River and District Hospital Corporation
Dryden Regional Health Centre
Englehart and District Hospital
Espanola General Hospital
Four Counties Health Services
Geraldton District Hospital
Grand River Hospital
Grey Bruce Health Services
Groves Memorial Community Hospital
Guelph General Hospital
Haldimand War Memorial Hospital
Haliburton Highlands Health Services Corporation
Halton Healthcare Services Corporation
Hamilton Health Sciences Corporation
Hanover & District Hospital
Headwaters Health Care Centre
Hôpital Général de Hawkesbury and District General Hospital Inc.
Hôpital Glengarry Memorial Hospital
Hôpital Montfort
Hôpital Notre Dame Hospital
Hôpital régional de Sudbury Regional Hospital
Hornepayne Community Hospital
Hospital for Sick Children
Hôtel-Dieu Hospital (Cornwall)
Hôtel-Dieu Grace Hospital
Humber River Regional Hospital
Huronia District Hospital
James Bay General Hospital
Joseph Brant Memorial Hospital
Kemptville District Hospital
Kingston General Hospital
Kirkland and District Hospital
Lady Dunn Health Centre
Lady Minto Hospital at Cochrane
Lake of the Woods District Hospital
Lakeridge Health Corporation
Leamington District Memorial Hospital
Lennox and Addington County General Hospital
Listowel Memorial Hospital
London Health Sciences Centre
Manitoulin Health Centre
Manitouwadge General Hospital
Markham Stouffville Hospital
Mattawa General Hospital
McCausland Hospital
Mount Sinai Hospital
Muskoka Algonquin Healthcare
Niagara Health System
Nipigon District Memorial Hospital
Norfolk General Hospital
North Bay General Hospital
North Wellington Health Care Corporation
North York General Hospital
Northumberland Hills Hospital
Orillia Soldiers' Memorial Hospital
Ottawa Hospital
Pembroke Regional Hospital Inc.
Penetanguishene General Hospital Inc.
Perth and Smiths Falls District Hospital
Peterborough Regional Health Centre

Public Hospitals – Ministry of Health and Long-Term Care (cont'd)

Providence Healthcare
Queensway-Carleton Hospital
Quinte Healthcare Corporation
Red Lake Margaret Cochenour Memorial Hospital
Religious Hospitallers of St. Joseph of the Hôtel Dieu of Kingston
Religious Hospitallers of St. Joseph of the Hôtel Dieu of St. Catharines
Renfrew Victoria Hospital
Riverside Health Care Facilities Inc.
Ross Memorial Hospital
Rouge Valley Health System
Royal Victoria Hospital of Barrie Inc.
Runnymede Healthcare Centre
Salvation Army Toronto Grace Hospital
Sault Area Hospital
Scarborough Hospital
Seaforth Community Hospital
Sensenbrenner Hospital
Services de santé de Chapleau Health Services
Sioux Lookout Meno-Ya-Win Health Centre
Sisters of Charity of Ottawa Hospital
Smooth Rock Falls Hospital
South Bruce Grey Health Centre
South Huron Hospital Association
Southlake Regional Health Centre
St. Francis Memorial Hospital
St. John's Rehabilitation Hospital
St. Joseph's Care Group
St. Joseph's General Hospital, Elliot Lake Incorporated
St. Joseph's Health Care, London
St. Joseph's Health Centre (Toronto)
St. Joseph's Health Centre (Guelph)
St. Joseph's Healthcare Hamilton
St. Mary's General Hospital
St. Mary's Memorial Hospital
St. Mary's of the Lake Hospital
St. Michael's Hospital
St. Peter's Hospital
St. Thomas - Elgin General Hospital
St. Vincent de Paul Hospital
Stevenson Memorial Hospital
Stratford General Hospital
Strathroy Middlesex General Hospital
Sunnybrook Health Sciences Centre
Temiskaming Hospital
Thunder Bay Regional Health Sciences Centre
Tillsonburg District Memorial Hospital
Timmins and District Hospital
Toronto East General Hospital
Toronto Rehabilitation Institute
Trillium Health Centre
University Health Network
University of Ottawa Heart Institute
West Haldimand General Hospital
West Lincoln Memorial Hospital
West Nipissing General Hospital
West Park Healthcare Centre
West Parry Sound Health Centre
Willett Hospital
William Osler Health Centre
Wilson Memorial General Hospital
Winchester District Memorial Hospital
Windsor Regional Hospital
Wingham and District Hospital
Women's College Hospital
Woodstock General Hospital
York Central Hospital

Specialty Psychiatric Hospitals – Ministry of Health and Long-Term Care

Centre for Addiction and Mental Health
Northeast Mental Health Centre
Royal Ottawa Health Care Group
Whitby Mental Health Centre

School Boards – Ministry of Education

Airy and Sabine District School Area Board
Algoma District School Board
Algonquin and Lakeshore Catholic District School Board
Asquith-Garvey District School Area Board
Atikokan Roman Catholic Separate School Board
Avon Maitland District School Board
Bloorview MacMillan School Authority
Bluewater District School Board
Brant Haldimand Norfolk Catholic District School Board
Bruce-Grey Catholic District School Board
Campbell Children's School Authority
Caramat District School Area Board
Catholic District School Board of Eastern Ontario
Collins District School Area Board
Connell and Ponsford District School Area Board
Conseil de district des écoles publiques de langue française no 59
Conseil scolaire de district catholique Centre-Sud
Conseil scolaire de district catholique de l'Est ontarien
Conseil scolaire de district catholique des Aurores boréales
Conseil scolaire de district catholique des Grandes Rivières
Conseil scolaire de district catholique du Centre-Est de l'Ontario
Conseil scolaire de district catholique du Nouvel-Ontario
Conseil scolaire de district catholique Franco-Nord
Conseil scolaire de district des écoles catholiques du Sud-Ouest
Conseil scolaire de district du Centre Sud-Ouest
Conseil scolaire de district du Grand Nord de l'Ontario
Conseil scolaire de district du Nord-Est de l'Ontario
District School Board of Niagara
District School Board Ontario North East
Dubreuilville Roman Catholic Separate School Board
Dufferin-Peel Catholic District School Board
Durham Catholic District School Board
Durham District School Board
Essex County Children's Rehabilitation Centre School Authority
Foleyet District School Area Board
Foleyet Roman Catholic Separate School Board
Gogama District School Area Board
Gogama Roman Catholic Separate School Board
Grand Erie District School Board
Greater Essex County District School Board
Halton Catholic District School Board
Halton District School Board
Hamilton-Wentworth Catholic District School Board
Hamilton-Wentworth District School Board
Hastings and Prince Edward District School Board
Hornepayne Roman Catholic Separate School Board
Huron-Perth Catholic District School Board
Huron-Superior Catholic District School Board
James Bay Lowlands Secondary School Board
Kawartha Pine Ridge District School Board
Keewatin-Patricia District School Board
Kenora Catholic District School Board
KidsAbility School Authority
Lakehead District School Board
Lambton Kent District School Board
Limestone District School Board
London District Catholic School Board
Mine Centre District School Area Board
Missarenda District School Area Board
Moose Factory Island District School Area Board
Peterborough Victoria Northumberland and Clarington Catholic District School Board
Moosonee Roman Catholic Separate School Board
Murchison and Lyell District School Area Board
Nakina District School Area Board
Near North District School Board
Niagara Catholic District School Board
Niagara Peninsula Children's Centre School Authority
Nipissing-Parry Sound Catholic District School Board
Northeastern Catholic District School Board
Northern District School Area Board
Northwest Catholic District School Board
Ottawa Children's Treatment Centre School Authority
Ottawa Catholic District School Board
Ottawa-Carleton District School Board
Parry Sound Roman Catholic Separate School Board
Peel District School Board
Penetanguishene Protestant Separate School Board
Moosonee District School Area Board
Rainbow District School Board
Rainy River District School Board
Red Lake Area Combined Roman Catholic Separate School Board
Renfrew County Catholic District School Board
Renfrew County District School Board
Simcoe County District School Board
Simcoe Muskoka Catholic District School Board
St. Clair Catholic District School Board
Sudbury Catholic District School Board
Superior North Catholic District School Board
Superior-Greenstone District School Board
Thames Valley District School Board

School Boards – Ministry of Education (cont'd)

Thunder Bay Catholic District School Board
Toronto Catholic District School Board
Toronto District School Board
Trillium Lakelands District School Board
Upper Canada District School Board
Upper Grand District School Board
Upsala District School Area Board
Waterloo Catholic District School Board
Waterloo Region District School Board
Wellington Catholic District School Board
Windsor-Essex Catholic District School Board
York Region District School Board
York Catholic District School Board

Colleges – Ministry of Training, Colleges and Universities

Algonquin College of Applied Arts and Technology
Cambrian College of Applied Arts and Technology
Canadore College of Applied Arts and Technology
Centennial College of Applied Arts and Technology
Collège Boréal d'arts appliqués et de technologie
Conestoga College of Applied Arts and Technology
Confederation College of Applied Arts and Technology
Durham College of Applied Arts and Technology
Fanshawe College of Applied Arts and Technology
George Brown College of Applied Arts and Technology
Georgian College of Applied Arts and Technology
Humber College Institute of Technology and Advanced Learning
Le collège d'arts appliqués et de technologie la Cité collégiale
Lambton College of Applied Arts and Technology
Loyalist College of Applied Arts and Technology
Mohawk College of Applied Arts and Technology
Niagara College of Applied Arts and Technology
Northern College of Applied Arts and Technology
Sault College of Applied Arts and Technology
Seneca College of Applied Arts and Technology
Sheridan College of Applied Arts and Technology
Sir Sandford Fleming College of Applied Arts and Technology
St. Clair College of Applied Arts and Technology
St. Lawrence College of Applied Arts and Technology

Province of Ontario
Schedule 8: Government Business Enterprises

Summary financial information of Government Business Enterprises is provided below.[1]

For the year ended March 31, 2007 ($ Millions)	Algonquin Forestry Authority	Hydro One Inc.	Liquor Control Board of Ontario	Niagara Parks Commission
Assets				
Cash and Temporary Investments	2	331	136	–
Accounts Receivable	5	842	24	1
Inventories	–	61	321	6
Prepaid Expenses	–	–	20	–
Long-Term Investments	–	–	–	–
Fixed Assets	1	10,609	233	132
Other Assets	3	830	—	—
Total Assets	11	12,673	734	139
Liabilities				
Bank Indebtedness	2	16	–	12
Accounts Payable	–	770	369	6
Deferred Revenue	–	–	–	–
Long-Term Debt	–	5,657	54	2
Other Liabilities	–	1,367	–	3
Total Liabilities	2	7,810	423	23
Net Assets	9	4,863	311	116
Revenue	28	4,663	3,928	79
Expenses	28	4,211	2,621	80
Net Income (Loss)	–	**452**	**1,307**	**(1)**
Net Assets — Beginning of Year	9	4,709	283	118
Payments from (to) CRF	–	(298)	(1,279)	(1)
Net Assets	**9**	**4,863**	**311**	**116**

[1] The information in this table represents unaudited results of government business enterprises for the year ended March 31, 2007. Adjustments have been made to eliminate fair market value gains and losses recorded by government business enterprises.

Ontario Clean Water Agency	Ontario Lottery and Gaming Corporation	Ontario Northland Transportation Commission	Ontario Power Generation Inc.	Total
42	704	–	15	1,230
12	79	17	397	1,377
–	–	19	678	1,085
3	59	1	–	83
8	–	–	–	8
4	2,412	261	12,738	26,390
125	80	89	9,227	10,354
194	3,334	387	23,055	40,527
–	–	14	–	44
10	444	31	820	2,450
–	13	1	141	155
–	392	36	3,384	9,525
8	174	63	12,757	14,372
18	1,023	145	17,102	26,546
176	2,311	242	5,953	13,981
122	6,085	144	5,613	20,662
117	4,140	151	5,118	16,466
5	**1,945**	**(7)**	**495**	**4,196**
171	2,044	250	5,586	13,170
–	(1,678)	(1)	(128)	(3,385)
176	**2,311**	**242**	**5,953**	**13,981**

Algonquin Forestry Authority (AFA)

The Algonquin Forestry Authority is responsible for forest management in Algonquin Park.

Hydro One Inc. (HOI)

The principal business of Hydro One is the transmission and distribution of electricity to customers within Ontario. It is regulated by the Ontario Energy Board.

Liquor Control Board of Ontario (LCBO)

The Liquor Control Board of Ontario regulates the purchase, sale and distribution of liquor for home consumption and liquor sales to licensed establishments through Liquor Control Board stores, Brewers' Retail stores and winery retail stores throughout Ontario. The Board buys wine and liquor products for resale to the public and tests all products sold to the public to maintain high standards of quality. The Board also establishes prices for beer, wine and spirits.

Niagara Parks Commission (NPC)

The Commission maintains, preserves and enhances the beauty and surroundings of the Horseshoe Falls and the Niagara River from Fort Erie to Niagara-on-the-Lake.

Ontario Clean Water Agency (OCWA)

The Agency assists municipalities in providing more cost-effective water and sewage services and encourages Ontario residents, municipalities and industries to conserve water. The Agency also finances, builds and operates water and sewage systems, as well as providing services to communities, all on a cost-recovery basis.

Ontario Lottery and Gaming Corporation (OLGC)

Under the *Ontario Lottery and Gaming Corporation Act, 1999*, the Corporation conducts lottery games and operates commercial casinos, charity casinos, and slot machines at 15 Ontario racetracks.

Ontario Northland Transportation Commission (ONTC)

The Commission provides rail, bus, ferry, air and telecommunications services to northern Ontario.

Ontario Power Generation Inc. (OPG)

The principal business of Ontario Power Generation Inc. is the generation and sale of electricity in the Ontario wholesale market and in the interconnected markets of Quebec, Manitoba and the northeast and midwest United States.

Province of Ontario

Schedule 9: Broader Public Sector Organizations

Summary financial information of Broader Public Sector Organizations is provided below.

For the year ended March 31, 2007[1] ($ Millions)	Hospitals	School Boards	Colleges	Total
Expense				
Salaries, Wages and Benefits	12,413	14,396	1,535	28,344
Bursaries, Student Aid and Other Grants	–	–	82	82
Interest Expense	67	335	45	447
Amortization Expense	788	492	149	1,429
Other	5,651	3,586	762	9,999
Total Expenses	18,919	18,809	2,573	40,301
Revenue				
School Property Taxes	–	6,243	–	6,243
Fees, Donations and Other Primary Revenues	1,000	438	1,071	2,509
Interest and Investment Income	37	84	21	142
Other	1,737	754	208	2,699
Total Revenue	2,774	7,519	1,300	11,593
Net Expenses	**16,145**	**11,290**	**1,273**	**28,708**
Transfers from the Province	16,453	11,223	1,372	29,048
Increase/(Decrease) in Net Assets of Broader Public Sector	**308**	**(67)**	**99**	**340**
Net Assets – Beginning of Year	7,752	7,340	1,647	16,739
Net Assets	8,060	7,273	1,746	**17,079**
Financial Assets	4,585	2,532	904	8,021
Liabilities	8,276	10,947	1,440	20,663
Net Debt	(3,691)	(8,415)	(536)	(12,642)
Tangible Capital Assets	11,751	15,688	2,282	29,721
Net Assets	**8,060**	**7,273**	**1,746**	**17,079**

[1] Amounts reported include consolidation adjustments made to eliminate significant inter-organizational gains and losses, to record tangible capital assets for school boards, and to conform school boards to the Province's fiscal year.

Sources of Additional Information

The Ontario Budget

The Ontario government presents a Budget each year, usually in the early spring. This document outlines expected expense and revenue for the upcoming fiscal year. For an electronic copy of the Ontario Budget, visit the Ministry of Finance website at www.fin.gov.on.ca.

The Estimates of the Province of Ontario

The government's spending Estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Minister of Finance. The Estimates outline the spending plans of each ministry and are submitted for approval to the Legislative Assembly according to the *Supply Act*. For electronic access, go to: www.fin.gov.on.ca.

Ontario Finances

This is a quarterly report on the performance of the government's Budget for the fiscal year. It covers developments during a quarter and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing to the Ministry of Finance, Communications and Corporate Affairs Branch, 3rd Floor, Frost Building North, 95 Grosvenor Street, Toronto ON M7A 1Z1. For electronic access, go to: www.fin.gov.on.ca.

Ontario Economic Accounts

This quarterly report contains data on Ontario's economic activity. Copies may be obtained free by writing to the Ministry of Finance, Communications and Corporate Affairs Branch, 3rd Floor, Frost Building North, 95 Grosvenor Street, Toronto ON M7A 1Z1. For electronic access, go to: www.fin.gov.on.ca.

2007 Pre-Election Report on Ontario's Finances

This report presents the government's fiscal plan for the 2007–08 to 2009–10 fiscal years. Copies may be obtained free by writing to the Ministry of Finance, Communications and Corporate Affairs Branch, 3rd Floor, Frost Building North, 95 Grosvenor Street, Toronto ON M7A 1Z1. For electronic access, go to: www.fin.gov.on.ca.

Please address your comments on this report to:

The Honourable Greg Sorbara
Minister of Finance
7th Floor
Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Y7

You can also send your comments to the Minister by
electronic mail to:
annualreport@ontario.ca

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